



TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

**Financial Statements
and
Independent Auditors' Report
December 31, 2017 and 2016**

EKS&H

E

RECEIVED

Office of the State Auditor

September 13, 2018

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Table of Contents

	<u>Page</u>
Independent Auditors' Report.....	i
Financial Statements	
Statements of Net Position.....	3
Statements of Revenues, Expenses, and Changes in Net Position.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6
Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Funds Available - Budget and Actual (Budgetary Basis).....	22
Reconciliation of Actual (Budgetary Basis) to Statements of Revenues, Expenses, and Changes in Net Position.....	24



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Todd Creek Village Metropolitan District (Adams County, Colorado)
Brighton, Colorado

We have audited the accompanying financial statements of Todd Creek Village Metropolitan District (Adams County, Colorado) (the "District") as of and for the years ended December 31, 2017 and 2016, 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 BASIC 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. 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 auditors' 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 auditors consider 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 opinion.

To the Board of Directors
Todd Creek Village Metropolitan District (Adams County, Colorado)
Page Two

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Todd Creek Village Metropolitan District (Adams County, Colorado) as of December 31, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

SUPPLEMENTARY INFORMATION

Accounting standards generally accepted in the United States of America require that the budgetary analysis be presented to supplement the basic financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

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

EKS+H LLLP
EKS&H LLLP

Denver, Colorado
July 20, 2018

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Statements of Net Position

	December 31,	
	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 245,241	\$ 30,003
Cash and cash equivalents - restricted	-	59,703
Investments - restricted	4,778,989	7,217,421
Accounts receivable, net of allowance for doubtful accounts of \$31,832 (2017) and \$0 (2016)	625,483	328,648
Prepaid expenses	14,773	14,974
Total current assets	5,664,486	7,650,749
Capital assets		
Water rights	4,683,684	4,683,684
Construction in progress	623,728	3,674,228
Operating system and storage	60,899,121	54,189,126
Accumulated depreciation	(17,070,616)	(15,562,391)
Total capital assets	49,135,917	46,984,647
Total assets	\$ 54,800,403	\$ 54,635,396
Liabilities and Net Position		
Current liabilities		
Accounts payable	\$ 1,491,523	\$ 2,052,027
Accrued interest payable	145,587	147,853
Current portion of capital lease obligations	19,762	20,465
Current portion of long-term debt	365,000	340,000
Total current liabilities	2,021,872	2,560,345
Long-term liabilities		
Capital lease obligations, net of current portion	-	19,764
Long-term debt, net of current portion	20,843,000	21,178,000
Total liabilities	22,864,872	23,758,109
Commitments and contingencies		
Net position		
Net investment in capital assets	27,908,155	25,426,418
Restricted	4,778,989	7,277,124
Unrestricted	(751,613)	(1,826,255)
Total net position	31,935,531	30,877,287
Total liabilities and net position	\$ 54,800,403	\$ 54,635,396

See notes to financial statements.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Statements of Revenues, Expenses, and Changes in Net Position

	For the Years Ended	
	December 31,	
	2017	2016
Operating revenues		
Water revenue	\$ 3,962,498	\$ 3,046,450
Facility development fees	747,971	1,188,414
Failure to connect fees	305,090	415,706
Availability fees	7,574	13,824
Meter fees	109,860	145,375
Inspection fees	32,850	43,550
Penalties and other income	742,830	163,998
Total operating revenues	<u>5,908,673</u>	<u>5,017,317</u>
Operating expenses		
Depreciation	1,508,225	1,373,587
District management	1,061,208	1,040,400
Utilities and water leases	1,046,386	886,868
Raw water acquisition	646,366	457,694
Repairs and maintenance	446,704	402,003
Office expense	260,469	148,857
Legal	226,039	157,560
MXU system	124,114	108,998
Water treatment	111,012	74,351
Engineering	103,048	87,324
Insurance	50,940	23,768
Miscellaneous	35,187	1,613
Accounting and audit	32,184	17,830
Bad debt expense	31,832	-
Vehicle expense	12,466	712
Public relations	9,687	8,825
Property tax	-	552
Total operating expenses	<u>5,705,867</u>	<u>4,790,942</u>
Operating income	<u>202,806</u>	<u>226,375</u>
Non-operating revenue and expense		
Interest income	48,760	62,565
Amortization expense	(30,000)	(30,000)
Interest expense	(1,771,974)	(1,907,073)
Loan fees	(5,500)	(29,425)
Total non-operating revenue and expense	<u>(1,758,714)</u>	<u>(1,903,933)</u>
Loss before capital contributions and special items	(1,555,908)	(1,677,558)
Capital contributions		
Tap fees	<u>2,614,152</u>	<u>4,234,554</u>
Change in net position	1,058,244	2,556,996
Net position - beginning of year	<u>30,877,287</u>	<u>28,320,291</u>
Net position - end of year	<u>\$ 31,935,531</u>	<u>\$ 30,877,287</u>

See notes to financial statements.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Statements of Cash Flows

	For the Years Ended December 31,	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Receipts from customers and users	\$ 8,225,990	\$ 9,816,573
Payments to suppliers	<u>(4,757,945)</u>	<u>(2,954,638)</u>
Net cash provided by operating activities	<u>3,468,045</u>	<u>6,861,935</u>
Cash flows from investing activities		
Interest received	<u>48,760</u>	<u>62,565</u>
Net cash provided by investing activities	<u>48,760</u>	<u>62,565</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(3,659,495)	(3,567,925)
Principal paid on capital lease	(20,467)	(19,383)
Interest paid on capital lease	(1,686)	(2,836)
Principal paid on Series 2015 bonds	(340,000)	(822,000)
Interest paid on bonds and certificates of participation	(1,772,554)	(1,939,711)
Other debt-related expenditures	<u>(5,500)</u>	<u>(29,425)</u>
Net cash used in financing activities	<u>(5,799,702)</u>	<u>(6,381,280)</u>
Net (decrease) increase in cash and cash equivalents	(2,282,897)	543,220
Cash and cash equivalents at beginning of year	<u>7,307,127</u>	<u>6,763,907</u>
Cash and cash equivalents at end of year	<u>\$ 5,024,230</u>	<u>\$ 7,307,127</u>
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents	\$ 245,241	\$ 30,003
Cash and cash equivalents - restricted	-	59,703
Investments - restricted	<u>4,778,989</u>	<u>7,217,421</u>
	<u>\$ 5,024,230</u>	<u>\$ 7,307,127</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	<u>\$ 202,806</u>	<u>\$ 226,375</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,508,225	1,403,587
Tap fees received from customers	2,614,152	4,234,554
Bad debt expense	31,832	-
Changes in assets and liabilities		
Accounts receivable	(328,667)	564,702
Prepaid expenses and other assets	201	(7,416)
Accounts payable	<u>(560,504)</u>	<u>440,133</u>
	<u>3,265,239</u>	<u>6,635,560</u>
Net cash provided by operating activities	<u>\$ 3,468,045</u>	<u>\$ 6,861,935</u>

See notes to financial statements.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 1 - Definition of Reporting Entity and Summary of Significant Accounting Policies

Definition of Reporting Entity

The Todd Creek Village Metropolitan District (Adams County, Colorado) (the "District") is a quasi-municipal corporation organized on November 19, 1996 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Adams and Weld Counties, Colorado. The District was established to provide water and wastewater services to an area encompassing approximately 6,725 acres in Adams County and 6,000 acres in Weld County.

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

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, the ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

As of December 31, 2017, no component unit has been identified as reportable to the District nor is the District a component unit of any other primary governmental entity.

Basis of Accounting

The accounting policies of the District conform to generally accepted accounting principles ("GAAP") as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets, and redemption of bonds and certificates of participation are recorded as reductions in liabilities. Tap fees are recorded as capital contributions when received.

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

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 1 - Definition of Reporting Entity and Summary of Significant Accounting Policies (continued)

Operating Revenue and Expenses

The District distinguishes between operating revenues and expenses and non-operating items in the statement of revenues, expenses, and changes in net position. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and wastewater services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses and depreciation of assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue, expenses, gains, losses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

Restricted Cash and Investments

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Restricted cash and investments totaled \$4,778,989 and \$7,277,124 at December 31, 2017 and 2016, respectively.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable and Allowance for Doubtful Accounts

Use fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the state of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements. Accounts receivable, other than those for use fees and tap fees, are evaluated by management for collectibility based on historical performance and known collection issues. Accounts receivable that are determined to be not collectible have been fully allowed for in the statements of net position.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 1 - Definition of Reporting Entity and Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets, which include water rights, water wells, storage and treatment facilities, and delivery systems, 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 or at the developer's cost. Capital assets are defined by the District as those assets with a cost or value of \$1,000 or greater. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements for which the District retains title are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District are depreciated using the straight-line method over the estimated useful lives (40 years for water system infrastructure). The cost of water rights includes acquisition cost, legal, and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. Depreciation expense for the years ended December 31, 2017 and 2016 totaled \$1,508,225 and \$1,373,587, respectively.

Amortization of Bond Discount

Series 2015 bond discounts are being amortized over the respective terms of the bonds using the straight-line method. Amortization expense for bond discounts amounted to \$30,000 for the years ended December 31, 2017 and 2016.

Net Position

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

Net Investment in Capital Assets

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, loans, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those net assets. As of December 31, 2017 and 2016, the District had net investment in capital assets of \$27,908,155 and \$25,426,418, respectively.

Restricted

The District had \$4,778,989 and \$7,277,124 restricted by contractual obligation for payment of debt service as of December 31, 2017 and 2016, respectively.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 1 - Definition of Reporting Entity and Summary of Significant Accounting Policies (continued)

Net Position (continued)

Unrestricted

The District's unrestricted net position as of December 31, 2017 and 2016 is \$(751,613) and \$(1,826,255), respectively. The deficit amounts are a result of the District being responsible for the repayment of bonds issued for construction, installation, and completion of water system improvements.

Contributed Capital

Tap fees and water resource fees are generally recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at the developer's cost or at the estimated fair value at the date of contribution.

Budgetary Information

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

The District budgeted a negative fund balance for the years ended December 31, 2017 and 2016, which may be a violation of State Budget Law. Additionally, the District exceeded its budgeted expenditures for the years ended December 31, 2017 and 2016, which may be a violation of State Budget Law.

Subsequent Events

The District has evaluated all subsequent events through the auditors' report date, which is the date these financial statements available to be issued.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 2 - Investments

Deposits with Financial Institutions

Colorado statutes require that the District use eligible public depositories as defined by the Colorado Public Deposit Protection Act (the "Act"). Under the Act, amounts on deposit in excess of federal insurance levels must be collateralized. As of December 31, 2017 and 2016, the federal insurance limits were \$250,000. The eligible collateral is determined by the Act and allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. The State Regulatory Commissions 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.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposit and investment policy adopts state statutes regarding custodial credit risk for deposits. As of December 31, 2017 and 2016, the District had \$171,640 and \$0, respectively, in custodial credit risk exposure.

Deposits with financial institutions as of December 31, 2017 were \$245,241 and \$421,640 for the carrying balance and bank balance, respectively. Deposits with financial institutions as of December 31, 2016 were \$30,003 and \$44,280 for the carrying balance and bank balance, respectively. Restricted cash deposits held with financial institutions as of December 31, 2017 and 2016 were \$0 and \$59,703, respectively, for the carrying balance and bank balance.

Credit Risk

The District's cash deposit and investment policy adopts state statutes regarding credit risk for investments.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include: obligations of the U.S. and certain U.S. government agency securities; certain international agency securities; general obligations; and revenue bonds of the U.S. local government entities, bankers' acceptances of certain banks, commercial paper, written repurchase agreements collateralized by certain authorized securities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Interest Rate Risk

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.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 2 - Investments (continued)

Interest Rate Risk (continued)

The District had the following investments:

	<u>Maturity</u>	<u>December 31,</u>	
		<u>2017</u>	<u>2016</u>
Colorado Surplus Asset Fund Trust	Weighted average under 60 days	\$ 4,778,989	\$ 7,217,421

Colorado Surplus Asset Fund Trust

During 2017 and 2016, the District invested in the Colorado Surplus Asset Fund Trust ("CSAFE"), 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, 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 a 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.

Concentration of Credit Risk

The District's cash deposit and investment policy adopts state statutes regarding concentration of credit risk for investments. The District invests primarily in money markets and/or U.S. securities, U.S. agency securities, or U.S.-sponsored corporate securities, which are not subject to concentration of credit risk.

Custodial Credit Risk - Investments

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's cash deposit and investment policy adopts state statutes regarding custodial credit risk for investments. As of December 31, 2017 and 2016, the District had \$4,778,989 and \$7,217,421, respectively, of investments held by outside parties.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 3 - Capital Assets

A summary of capital asset acquisitions, dispositions, and accumulated depreciation for the year ended December 31, 2017 is as follows:

	<u>December 31,</u> <u>2016</u>	<u>Increases</u>	<u>Transfers</u>	<u>December 31,</u> <u>2017</u>
Capital assets, not being depreciated				
Water rights	\$ 4,683,684	\$ -	\$ -	\$ 4,683,684
Construction in progress	<u>3,674,228</u>	<u>460,765</u>	<u>(3,511,265)</u>	<u>623,728</u>
Total capital assets, not being depreciated	<u>8,357,912</u>	<u>460,765</u>	<u>(3,511,265)</u>	<u>5,307,412</u>
Capital assets, being depreciated				
Water distribution and storage	49,063,874	3,161,843	3,511,265	55,736,982
Sewer system	5,045,437	-	-	5,045,437
Vehicles	<u>79,815</u>	<u>36,887</u>	<u>-</u>	<u>116,702</u>
Total capital assets, being depreciated	<u>54,189,126</u>	<u>3,198,730</u>	<u>3,511,265</u>	<u>60,899,121</u>
Less accumulated depreciation	<u>(15,562,391)</u>	<u>(1,508,225)</u>	<u>-</u>	<u>(17,070,616)</u>
Total capital assets	<u>\$ 46,984,647</u>	<u>\$ 2,151,270</u>	<u>\$ -</u>	<u>\$ 49,135,917</u>

A summary of capital asset acquisitions, dispositions, and accumulated depreciation for the year ended December 31, 2016 is as follows:

	<u>December 31,</u> <u>2015</u>	<u>Increases</u>	<u>Transfers</u>	<u>December 31,</u> <u>2016</u>
Capital assets, not being depreciated				
Water rights	\$ 4,683,684	\$ -	\$ -	\$ 4,683,684
Construction in progress	<u>1,006,561</u>	<u>2,667,667</u>	<u>-</u>	<u>3,674,228</u>
Total capital assets, not being depreciated	<u>5,690,245</u>	<u>2,667,667</u>	<u>-</u>	<u>8,357,912</u>
Capital assets, being depreciated				
Water distribution and storage	48,163,616	900,258	-	49,063,874
Sewer system	5,045,437	-	-	5,045,437
Vehicles	<u>79,815</u>	<u>-</u>	<u>-</u>	<u>79,815</u>
Total capital assets, being depreciated	<u>53,288,868</u>	<u>900,258</u>	<u>-</u>	<u>54,189,126</u>
Less accumulated depreciation	<u>(14,188,804)</u>	<u>(1,373,587)</u>	<u>-</u>	<u>(15,562,391)</u>
Total capital assets	<u>\$ 44,790,309</u>	<u>\$ 2,194,338</u>	<u>\$ -</u>	<u>\$ 46,984,647</u>

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 4 - Long-Term Debt

Changes in long-term debt for the year ended December 31, 2017 are as follows:

	<u>December 31,</u> <u>2016</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31,</u> <u>2017</u>	<u>Due Within</u> <u>One Year</u>
Series 2015 bonds	\$ 22,178,000	\$ -	\$ (340,000)	\$ 21,838,000	\$ 365,000
Series 2015 bond discount	<u>(660,000)</u>	<u>-</u>	<u>30,000</u>	<u>(630,000)</u>	
	<u>\$ 21,518,000</u>	<u>\$ -</u>	<u>\$ (310,000)</u>	<u>\$ 21,208,000</u>	

Changes in long-term debt for the year ended December 31, 2016 are as follows:

	<u>December 31,</u> <u>2015</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31,</u> <u>2016</u>	<u>Due Within</u> <u>One Year</u>
Series 2015 bonds	\$ 23,000,000	\$ -	\$ (822,000)	\$ 22,178,000	\$ 340,000
Series 2015 bond discount	<u>(690,000)</u>	<u>-</u>	<u>30,000</u>	<u>(660,000)</u>	
	<u>\$ 22,310,000</u>	<u>\$ -</u>	<u>\$ (792,000)</u>	<u>\$ 21,518,000</u>	

Bonds Payable

Taxable Series 2015 Water Activity Enterprise Revenue and Improvement Bonds

On November 18, 2015, the District issued Water Activity Enterprise Revenue Refunding and Improvement Bonds, Taxable, Series 2015, in the aggregate principal amount of \$23,000,000. These bonds are a limited obligation and payable solely from the gross revenue of the system, subject to payment of operation and maintenance expenses. The bondholders of the 2004 bonds and 2006 Certificates of Participation independently entered into settlement agreements with the District dated June 11, 2015, in which each of the parties agreed to an amount to settle the unpaid debt obligations from the Series 2015 bond proceeds.

The bonds bear interest at 8% per annum payable semi-annually on June 1 and December 1. The bonds are subject to mandatory sinking fund redemption prior to maturity, in part, on December 1 each year, according to terms described in the trust indenture. The bonds are also subject to prior redemption at the option of the District, as a whole or in part in integral multiples of \$5,000 plus accrued interest, on December 1, 2023 and on any interest payment date thereafter, subject to redemption prices of 104% on December 1, 2023; 102% on December 1, 2024; and 100% on December 1, 2025 and thereafter.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 4 - Long-Term Debt (continued)

Bonds Payable (continued)

Taxable Series 2015 Water Activity Enterprise Revenue and Improvement Bonds (continued)

The bonds are special limited revenue obligations of the District's enterprise, payable solely from and secured by the "pledged revenue and funds" as defined in the bond trust indenture. Gross revenues of the enterprise are pledged to payment of the bonds and remitted to the trustee in accordance with the Indenture of Trust. The trustee disburses operating, capital, and debt payments upon review and approval of the bondholder and District management. The District is subject to various performance covenants that are included in the trust indenture.

During 2016, the District used proceeds from the Series 2015 bonds for capital improvements that may not be eligible to be funded by such proceeds. This may be a violation of state statute and a violation of the District's bond covenants. The bondholder representative and the District agreed that the District would replenish the Capital Improvement Fund for said improvements by December 30, 2016. The amount was replenished as of August 31, 2016.

Bond Maturities

Bond maturities for the next five years and to maturity are subject to principal "mandatory sinking fund redemption" and interest payments as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 365,000	\$ 1,787,600	\$ 2,152,600
2019	395,000	1,758,400	2,153,400
2020	430,000	1,726,800	2,156,800
2021	460,000	1,692,400	2,152,400
2022-2026	2,930,000	7,845,200	10,775,200
2027-2031	4,305,000	6,470,400	10,775,400
2032-2036	6,325,000	4,449,200	10,774,200
2037-2040	<u>6,628,000</u>	<u>1,481,600</u>	<u>8,109,600</u>
	<u>\$ 21,838,000</u>	<u>\$ 27,211,600</u>	<u>\$ 49,049,600</u>

Additionally, the bonds are subject to payments under a "special mandatory redemption fund" up to a maximum amount of \$2,000,000 for the years 2016, 2017, and 2018, or a maximum payment of \$6,000,000 total over those three years. All such payments are to be credited against the "mandatory sinking fund" installments (per above table) in inverse order of the "mandatory sinking fund" redemption dates. The District did not fund the "special mandatory redemption fund" to the maximum in 2017.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 4 - Long-Term Debt (continued)

Capital Lease Obligation

On December 18, 2014, the District entered into a capital lease obligation to purchase two vehicles. The lease is on a monthly basis for 48 consecutive monthly periods with interest and principal payments of \$1,846 with interest of 5.45%. The lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The future minimum lease obligations and net present value of the minimum lease payments as of December 31, 2017 were \$19,762, which is due in 2018.

Note 5 - Water Agreements

Water Lease Agreements

On January 1, 2004, the District entered into two Water Lease Agreements with Coors Brewing Company ("Coors"), both renewable annually until December 31, 2006. Under the terms of the agreements, the District received the right for a minimum of 250 acre feet of Leased Water at a rate of \$175 per acre foot in 2005 and \$200 per acre foot in 2006 with minimum annual payments of \$45,500 and \$52,000, respectively, payable on January 1 each year.

Effective January 1, 2008, the District renewed its two Water Lease Agreements with Coors, both now terminated on December 31, 2011 (initial term). Both Agreements were renewed for an additional five-year term ended December 31, 2017.

Under the terms of the first Agreement, the District received the right to 100 acre feet of Leased Water at a rate of \$325 per acre foot. The minimal annual payments were \$32,500, payable on January 1 each year. Under the terms of the second Agreement, the District received the right to 100 acre feet of Leased Water at a rate of \$325 per acre foot. The minimal annual payments were \$32,500, payable on January 1 each year.

The first and second Agreements were terminated and replaced with a Water Lease Agreement executed on March 31, 2017. The agreement commenced on April 1, 2017 with an initial lease term ending March 31, 2022 with the option for up to two five-year renewals. Under the terms of the agreement, the District receives the right to up to 200 acre feet, with the option to increase by an additional 200 acre feet, of water per delivery season at a rate of \$750 per acre foot.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 5 - Water Agreements (continued)

Water Share Purchase and Lease-Back Agreement

On June 17, 2014, the District entered into a Water Share Purchase and Lease-Back Agreement with H3O LLC ("H3O"). Principals of H3O also serve on the District's Board of Directors. Under this agreement, H3O funded the \$1,000,000 settlement with Valley Bank and Trust on the District's behalf. As a result, the District conveyed its original Brantner Share certificates to H3O, and the District agrees to lease consumable water from H3O at a rate of \$350 per acre foot per year. The term of the lease will continue for as long as H3O owns the Brantner Shares and will terminate when and to the extent H3O sells all or a portion of the shares. The District has first right of refusal upon H3O's decision to sell the shares.

Water Lease Agreement

The District entered into two Water Lease Agreements with H3O to lease consumable water and potable and non-potable water at \$650 per acre foot. The leases expired on December 31, 2013; however, the District and H3O have been operating under the terms of the initial lease subsequent to the termination date.

On January 1, 2016, the District entered into a Water Lease Agreement with H3O with a termination date of December 31, 2018. Under the terms of the new agreement, H3O will lease the District up to 300 acre feet of water annually at a rate of \$650 per acre foot paid monthly.

On January 1, 2016, the District entered into a Water Lease Agreement with H3O with a termination date of December 31, 2018. Under terms of this agreement, the District will lease up to 300 acre feet of water annually to H3O at a rate of \$650 per acre foot paid monthly.

Water Storage and Facilities Usage and Public Improvements Agreement

On August 21, 2013, the District entered into a Water Storage and Facilities Usage and Public Improvements Agreement with H3O. H3O is granted the use of the following: (1) the District's water storage reservoirs, including but not limited to Signal Reservoir No. 1 and Signal Reservoir No. 2, or other District water storage reservoirs designated by the District; (2) water transmission lines, wells, pumps, facilities, and appurtenances for the purpose of storing up to 200 acre feet of water and transmitting up to 2,000 acre feet of water per year, provided such storage and transmission does not interfere with the District's use of the Facilities; and (3) the Signal Reservoirs and the District's adjoining land necessary for the purposes of installing temporary and permanent water pumps, pipelines, and associated facilities to withdraw water from the Signal Reservoirs and to construct access roads. H3O's Right of Usage is subject to the District's use of the Facilities for the benefit of the District's present or future customers and H3O is not entitled to use any Facilities needed for public use by the District's present or future customers.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 5 - Water Agreements (continued)

Water Storage and Facilities Usage and Public Improvements Agreement (continued)

As partial consideration for the Right of Usage, H3O has paid the District \$50 per acre foot of water pumped through the District's water lines as measured at the District's alluvial wells or the Guthrie turnout on the Brantner Ditch, but not to exceed \$100,000 per year. As additional consideration, H3O agrees to construct improvements to the Reservoir estimated to be \$750,000 and improvements to the Water Lines and to the District's delivery systems from the reservoirs, estimated to be \$250,000. The Public Improvements will be dedicated to the District on or before the end of the term of this agreement (December 31, 2018) at no cost to the District.

Water Lease Agreement

The District entered into a Water Lease Agreement with South Adams County Water and Sanitation District on April 3, 2013 to lease 500 acre feet of water at \$340 per acre foot. On or before March 31 of each subsequent year of the lease term, South Adams County shall provide the District with a written Delivery Projection for that year of the lease term. The lease terminates on March 31, 2018.

On January 1, 2016, the District entered into a new Water Lease Agreement with HTC to lease non-potable water to the golf course. The lease expires on December 31, 2018. Under the terms of the lease, the District will lease 300 acre feet of water annually to HTC at a rate of \$537.65 per acre foot, or \$1.65 per thousand gallons of non-potable water drawn by HTC.

Water Lease - Purchase Agreement

On December 8, 2015, the District, Adams County (the "County"), and South Adams County Water and Sanitation District ("SACWSD") entered into an intergovernmental agreement regarding the Mann Lakes Reservoir ("Mann Lakes"). The County agreed to lease to the District and SACWSD certain storage and inlet/outlet capacity as well as granted a license to use, access, manage, operate, repair, and maintain Mann Lakes and the area around Mann Lakes, which is controlled by the County. The County further granted the District and SACWSD a purchase option for the reservoir storage and inlet/outlet capacity, effective when the reservoir becomes operational and remaining in effect through the end of the lease purchase term. The minimum purchase amount is \$6,238,925, adjusted for credits to and from the District as detailed in the lease purchase agreement. The term of the lease purchase expired on December 31, 2015; is subject to an automatic renewal for 12 consecutive one-year periods unless terminated prior to the end of the lease term; and is subject to annual appropriation by the District and SACWSD. The District made an earnest payment to the County of \$30,000, which shall be credited to the first year's lease-purchase payment. Lease-purchase payments are \$120,000 annually and are due April 1 of each year once the reservoir becomes operational. The District anticipates that the reservoir will be operational in the spring of 2018.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 6 - Related Parties

The majority of the District's Board of Directors are either stockholders or employees of Equinox Land Group, Inc. (the "Parent Company"). The Parent Company owns Village Water Management, LLC (the "Company"). The Company entered into an agreement to perform the administrative duties, maintain and administer operations, and handle the financial affairs of the District. The contract expired in 2015 but is subject to the District's annual budget and appropriation. The District extended the contract in 2016 and paid \$1,040,400 for that year. As of December 31, 2016, the District owed \$93,419 to the Company, which is included in accounts payable on the statements of net position.

On December 30, 2015, the District entered into a Facilities Development Agreement with the Parent Company. Under the agreement, the District is solely responsible for contracting the design, construction, and installation of improvements on property owned by the Parent Company to serve the property as components of the District's water system. The Parent Company is required to pay a facilities development fee to the District for the benefit of the public improvements to the Parent Company. The development fee of \$60,924 per lot will be paid to the District upon transfer of the lots within the property from the Parent Company to the homebuilders or other parties. For the year ended December 31, 2017, the system facility fee paid to the District was \$747,971.

Principals of H3O (Note 5) also serve on the District's Board of Directors. At December 31, 2017 and 2016, respectively, the District owed H3O \$13,000 and \$799,165, and H3O owed the District \$3,750 and \$636,764 related to the water agreements disclosed in Note 5.

Principals of HTC (Note 5) also serve on the District's Board of Directors. At December 31, 2017, HTC owed the District \$41,639 related to the water agreements disclosed in Note 5.

Principals of West South Platte Water & Reservoir, LLC also serve on the District's Board of Directors. As of and for the year ended December 31, 2017, the District paid \$25,000 for rent expense, included in the amount disclosed in Note 7, and owed West South Platte Water & Reservoir, LLC \$94,956.

Note 7 - Commitments and Contingencies

Commitments

The District leases office space from a related party under a triple-net agreement that expires in August 2021. Additionally, the District leases certain office equipment payable through 2019. Total rental expense from the operating leases for the years ended December 31, 2017 and 2016 was \$106,592 and \$72,898, respectively.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 7 - Commitments and Contingencies (continued)

Commitments (continued)

Minimum base rental payments, excluding expected property taxes, due for the next four years and in total are as follows:

Year Ending December 31,

2018	\$	78,120
2019		75,780
2020		75,000
2021		<u>50,000</u>
	\$	<u>278,900</u>

In January 2017, the District entered into an agreement with a third party to provide professional consulting and management services for planning, financing, constructing, and installing certain public improvements at a rate of 5% of gross billings for all contractors hired and constructions performed by the third party to complete the public improvements. The agreement was renewed in January 2018 and automatically renews each succeeding year until it is terminated.

Litigation

On August 22, 2013, ALF Todd Creek Village North, L.P. ("ALF") filed a complaint against the District regarding the Water and Sewer Agreement with ALF Equinox Todd Creek Village North, LLC (the "Joint Venture") seeking a declaration regarding the Joint Venture's obligation to obtain water and sewer service from the District and seeking, in the alternative, breach of contract or anticipatory repudiation claims against the District alleging unspecified damages. On September 11, 2013, the District filed a motion to dismiss all of the claims. On January 6, 2014, the District's motion was denied. The District filed an answer, affirmative defenses, and counterclaims on May 9, 2014, seeking a declaration that the Water and Sewer Agreement is enforceable and provides the District with an exclusive right to provide water and sewer services pursuant to its terms. On March 23, 2015, the matter went to trial, and the court ruled on May 19, 2015 in favor of the District, which ALF has appealed. On August 25, 2016, the Colorado Court of Appeals affirmed the judgment in favor of the District. ALF appealed the ruling to the Colorado Supreme Court on October 15, 2016. During 2017, the Colorado Supreme Court declined to hear the ruling; therefore, all appeals in this matter have concluded in favor of the District causing the Water and Sewer Agreement to be a binding and enforceable contract. Additionally, in 2017, ALF was required to pay the District \$335,000 for attorney's fees and costs, which was paid in spring 2017.

The District is involved in litigation from time to time in the ordinary course of business. In the opinion of management, the outcome of any such litigation will not materially affect the net position, results of operations, or cash flows of the District.

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

Notes to Financial Statements

Note 8 - 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.

The District's management believes it qualifies under the Water Activity Enterprise definition of TABOR and, therefore, is not subject to the requirements of TABOR. However, TABOR is complex and subject to interpretation.

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 maintains commercial insurance for all risks of loss. Settled claims have not exceeded the commercial coverage limits in any of the past three years.

SUPPLEMENTARY INFORMATION

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

**Schedule of Revenues, Expenditures, and Changes in Funds Available - Budget and Actual
(Budgetary Basis)
For the Year Ended December 31, 2017**

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Favorable (Unfavorable)
Enterprise			
Revenues			
Water revenue	\$ 3,954,177	\$ 3,160,829	\$ (793,348)
Failure to connect fees	402,609	305,090	(97,519)
Meters	147,052	109,860	(37,192)
Inspection fees	49,318	32,850	(16,468)
Lease of water	313,370	801,669	488,299
Tap fees	-	490,351	490,351
Investment earnings	18,226	6,798	(11,428)
Penalties and other income	<u>693,103</u>	<u>742,830</u>	<u>49,727</u>
Total revenues	<u>5,577,855</u>	<u>5,650,277</u>	<u>72,422</u>
Expenditures			
Accounting and audit	9,500	32,184	(22,684)
Administration	203,507	260,469	(56,962)
District management	1,061,208	1,061,208	-
Engineering	108,000	103,048	4,952
Insurance	23,768	50,940	(27,172)
Legal	180,200	226,039	(45,839)
Miscellaneous	2,111	35,187	(33,076)
MXU system	107,003	124,114	(17,111)
Community relations	3,000	9,687	(6,687)
Bad debt expense	-	31,832	(31,832)
Raw water acquisition	428,891	646,366	(217,475)
Repairs and maintenance	584,601	446,704	137,897
Utilities	838,740	1,046,386	(207,646)
Vehicle expense	836	12,466	(11,630)
Water treatment	<u>116,600</u>	<u>111,012</u>	<u>5,588</u>
Total expenditures	<u>3,667,965</u>	<u>4,197,642</u>	<u>(529,677)</u>
Excess of enterprise revenues over (under) enterprise expenditures	<u>1,909,890</u>	<u>1,452,635</u>	<u>(457,255)</u>

(Continued on the following page)

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

**Schedule of Revenues, Expenditures, and Changes in Funds Available - Budget and Actual
(Budgetary Basis)
For the Year Ended December 31, 2017**

(Continued from the previous page)

	<u>Original and Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
General government			
Revenues			
Tap fees and availability of service fees	3,869,623	2,131,375	(1,738,248)
System development fees	569,353	747,971	178,618
Investment earnings	-	41,962	41,962
Total revenues	<u>4,438,976</u>	<u>2,921,308</u>	<u>(1,517,668)</u>
Expenditures			
Debt service			
Interest	1,776,640	1,801,974	(25,334)
Principal	1,925,033	360,467	1,564,566
Fees	-	5,500	(5,500)
Capital outlay			
Other	-	-	-
Operating system and storage	<u>6,408,000</u>	<u>3,659,495</u>	<u>2,748,505</u>
Total expenditures	<u>10,109,673</u>	<u>5,827,436</u>	<u>4,282,237</u>
Excess of general government revenues under general government expenditures	<u>(5,670,697)</u>	<u>(2,906,128)</u>	<u>(2,764,569)</u>
Total District revenues	10,016,831	8,571,585	(1,445,246)
Total District expenditures	<u>13,777,638</u>	<u>10,025,078</u>	<u>3,752,560</u>
Total excess of revenue (under) over expenditures	(3,760,807)	(1,453,493)	2,307,314
Funds available - beginning	<u>(1,818,805)</u>	<u>4,510,516</u>	<u>6,287,719</u>
Funds available - ending	<u>\$ (5,579,612)</u>	<u>\$ 3,057,023</u>	<u>\$ 8,595,033</u>

TODD CREEK VILLAGE METROPOLITAN DISTRICT (ADAMS COUNTY, COLORADO)

**Reconciliation of Actual (Budgetary Basis) to Statements of Revenues, Expenses, and Changes in
Net Position
For the Year Ended December 31, 2017**

Revenue (budgetary and GAAP basis)	<u>\$ 8,571,585</u>
Expenditures (budgetary basis)	10,025,078
Add	
Depreciation	1,508,225
Less	
Principal payments	360,467
Capital outlay	<u>3,659,495</u>
Total expenses (GAAP basis)	<u>7,513,341</u>
Change in net position per statements of revenues, expenses, and changes in net position	<u>\$ 1,058,244</u>