

**Deer Meadows Metropolitan District  
Financial Statements  
December 31, 2018  
with Independent Auditors' Report**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Deer Meadows Metropolitan District  
Larimer County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Deer Meadows Metropolitan District (the "District") as of and for the year ended December 31, 2018, which collectively comprise the District's basic financial statements as listed in the table of contents and the related notes to the financial statements.

### ***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 of 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 Deer Meadows Metropolitan District as of December 31, 2018 and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***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 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 (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund budgetary comparison schedule on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The individual budgetary comparison schedule is the responsibility of management and 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 individual fund budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Crady, Puca & Associates***

Aurora, Colorado  
June 25, 2019

# Government-wide Financial Statements

# Government-wide Financial Statements

## Statement of Net Position

### Deer Meadows Metropolitan District

#### Statement of Net Position

December 31, 2018

<b>Assets</b>	
Cash and Investments	\$ 31,882
Restricted Cash and Investments	16,093
Due from County Treasurer	1,221
Property Tax Receivable	183,627
Prepaid Expenses	2,375
Capital Assets:	
Non-depreciable	288,009
Depreciable, net	241,388
Total Assets	<u>764,595</u>
<b>Liabilities</b>	
Accounts Payable and Unearned Revenues	91
Interest Payable	729,773
Notes Payable:	
Due within one year	1,150,000
Due in more than one year	1,350,000
Total Liabilities	<u>3,229,864</u>
<b>Deferred Inflows of Resources</b>	
Unavailable Property Tax	183,627
Total Deferred Inflows of Resources	<u>183,627</u>
<b>Net position</b>	
Net Investment in Capital Assets	-
Restricted	
Debt Service	17,111
Emergencies	834
Unrestricted	(2,666,841)
Total Net Position	<u>\$ (2,648,896)</u>

## Statement of Activities

**Deer Meadows Metropolitan District**  
**Statement of Activities**  
**For the year ended December 31, 2018**

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### **Expenditures**

#### Governmental Activities:

Administrative	\$ 8,407
Management	6,000
Legal	5,647
Landscape Maintenance and Utilities	5,843
Treasurer's Fees	3,287
Interest on Long-term Debt	178,099
Depreciation	15,023
Total Expenditures	<u>222,306</u>

### **General Revenues**

Property Taxes	164,332
Specific Ownership Taxes	14,271
Development Fees	80,000
Other Income	28,163
Total General Revenues	<u>286,766</u>

**Change in Net Position** 64,460

<b>Net Position, beginning of year, originally reported</b>	(5,692,382)
<b>Prior period adjustment</b>	2,979,026
<b>Net Position, beginning of year, restated</b>	<u>(2,713,356)</u>
<b>Net Position, end of year</b>	<u><u>\$ (2,648,896)</u></u>

# Fund Financial Statements

Balance Sheet – Governmental Funds

**Deer Meadows Metropolitan District  
Balance Sheet - Governmental Funds  
December 31, 2018**

	General Fund	Debt Service Fund	Total
<b>Assets</b>			
Cash and Investments	\$ 31,882	\$ -	\$ 31,882
Restricted Cash and Investments	-	16,093	16,093
Due from County Treasurer	203	1,018	1,221
Property Tax Receivable	30,604	153,023	183,627
Prepaid Expenses	2,375	-	2,375
Total Assets	<u>\$ 65,064</u>	<u>\$ 170,134</u>	<u>\$ 235,198</u>
<b>Liabilities</b>			
Accounts Payable	\$ 91	\$ -	\$ 91
Total Liabilities	<u>91</u>	<u>-</u>	<u>91</u>
<b>Deferred Inflows of Resources</b>			
Unavailable Property Tax	30,604	153,023	183,627
Total Deferred Inflows of Resources	<u>30,604</u>	<u>153,023</u>	<u>183,627</u>
<b>Fund Balance</b>			
Nonspendable:			
Prepaid Expenses	2,375	-	2,375
Restricted:			
Debt Service	-	17,111	17,111
Emergencies	834	-	834
Unassigned	31,160	-	31,160
Total Fund Balance	<u>34,369</u>	<u>17,111</u>	<u>51,480</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<u>\$ 65,064</u>	<u>\$ 170,134</u>	<u>\$ 235,198</u>

Amounts reported for governmental activities in the statement of Net Position are Different because:

Total fund balance - governmental funds	51,480
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	529,397
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	(3,229,773)
<b>Total Net Position</b>	<u>\$ (2,648,896)</u>

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

**Deer Meadows Metropolitan District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended December 31, 2018**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
<b>Revenues</b>			
Property Tax	\$ 27,394	\$ 136,938	\$ 164,332
Specific Ownership Tax	2,379	11,892	14,271
Development Fees	-	80,000	80,000
Other Revenues	13	81	94
<b>Total Revenues</b>	<b>29,786</b>	<b>228,911</b>	<b>258,697</b>
<b>Expenditures</b>			
General Government:			
Administrative	4,877	3,530	8,407
Management and Accounting	6,000	-	6,000
Legal	5,647	-	5,647
Landscape Maintenance and Utilities	5,843	-	5,843
Treasurer's Fees	548	2,739	3,287
Debt Service:			
Interest	-	218,060	218,060
<b>Total Expenditures</b>	<b>22,915</b>	<b>224,329</b>	<b>247,244</b>
Excess (Deficiency) of Revenues over Expenditures	6,871	4,582	11,453
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Outlots	30,000	-	30,000
Repayment of Developer Loan	(9,500)	-	(9,500)
<b>Total Other Financing Sources (Uses)</b>	<b>20,500</b>	<b>-</b>	<b>20,500</b>
<b>Net Changes in Fund Balance</b>	<b>27,371</b>	<b>4,582</b>	<b>31,953</b>
Fund Balances, beginning	6,998	12,529	19,527
<b>Fund Balances, ending</b>	<b>\$ 34,369</b>	<b>\$ 17,111</b>	<b>\$ 51,480</b>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities

**Deer Meadows Metropolitan District**  
**Reconciliation of the Statement of Revenues, Expenditure and Changes in Fund Balance of the Governmental Fund to the Statement of Activities**  
**For the year ended December 31, 2018**

	Total Governmental Funds
<b>Net change in fund balance of the governmental funds</b>	<b>\$ 31,953</b>
 Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current year.	(15,023)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net position.	(1,931)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt.	49,461
<b>Change in net position of governmental activities</b>	<b>\$ 64,460</b>

Statement of Revenues, Expenditures and Changes in Fund Balances – Actual and Budget  
– General Fund

**Deer Meadows Metropolitan District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Actual and Budget - General Fund**  
**For the year ended December 31, 2018**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Property Tax	\$27,388	\$27,394	\$27,394	\$ -
Specific Ownership Tax	2,055	2,331	2,379	48
Other Revenues	-	4	13	9
Total Revenues	<u>29,443</u>	<u>29,729</u>	<u>29,786</u>	<u>57</u>
<b>Expenditures</b>				
Administrative	7,510	3,834	4,102	(268)
Management	6,000	6,000	6,000	-
Legal	6,000	6,500	5,647	853
Audits	3,000	775	775	-
Treasurer's Fees	548	548	548	-
Landscape Maintenance and Utilities	10,500	10,100	5,843	4,257
Contingency	1,885	2,165	-	2,165
Total Expenditures	<u>35,443</u>	<u>29,922</u>	<u>22,915</u>	<u>7,007</u>
Excess (Deficiency) of Revenues over Expenditures	(6,000)	(193)	6,871	7,064
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of outlots	-	30,000	30,000	-
Developer advances	6,000	-	-	-
Repayment of Developer Loan	-	(9,500)	(9,500)	-
Total Other Financing Sources (Uses)	<u>6,000</u>	<u>20,500</u>	<u>20,500</u>	<u>-</u>
<b>Net Changes in Fund Balance</b>	-	20,307	27,371	7,064
Fund Balance, beginning	151	6,998	6,998	-
<b>Fund Balance, ending</b>	<u>\$ 151</u>	<u>\$27,305</u>	<u>\$34,369</u>	<u>\$ 7,064</u>

## Notes to The Financial Statements

### Note 1: Summary of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant policies consistently applied in the preparation of the financial statements.

#### **Reporting Entity**

Deer Meadows Metropolitan District (the "District") is a quasi-municipal corporation organized and operated pursuant to provisions set forth in the Colorado Special District Act. The District operates under a service plan approved by the City of Loveland in Larimer County, Colorado. The District was established in 2005 to provide public services and improvements for the District and surrounding area within its boundaries.

The District is governed by a five-member Board of Directors (the "Board") elected or appointed by the constituents. The District has no employees and all operations and administrative functions are contracted.

The District complies with GASB, Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34" and GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". These statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate entities for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District has no component units as defined by the GASB.

#### **Basis of Presentation**

While separate government-wide and fund financial statements are presented, they are interrelated. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the governmental activities of the District which are financed primarily by property taxes and development fees.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, and contributions that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues. The District does not have proprietary or fiduciary funds.

The fund financial statements provide information about the government's funds.

## Note 1: Summary of Significant Accounting Policies - continued

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current *financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt and expenditures related to compensated absences are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The District reports the following governmental funds:

**General Fund** – is the District’s primary operating fund used to account for collections and payments of operating resources not accounted for in another fund.

**Debt Service Fund** – is the District’s fund used to account for collections and payments of the District’s debt resources.

### Assets:

#### Cash and Investments

Investments held in the local government investment pool are reported at net asset value as allowed under US GAAP.

District management may at times follow the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by regulations or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements may be pooled for deposit and investment flexibility. As applicable, investment earnings are allocated periodically to the participating funds based upon each fund’s average equity balance in the total cash.

#### Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted

Deer Meadows Metropolitan District  
Notes to the Financial Statements  
December 31, 2018

[Note 1: Summary of Significant Accounting Policies - continued](#)

market prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs. At December 31, 2018, the District did not hold any investments required to be reported under fair value.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of the prepaid item is recorded as an expenditure when consumed rather than when purchased.

**Property Taxes**

Property taxes are levied annually and attach as an enforceable lien on property as of January 1. At the option of the taxpayer, property taxes may be paid in full or in two equal installments. The first of such installment is to be paid as of February 28 and the second installment is to be paid no later than June 15. If elected to be paid in full, the amount is to be paid no later than April 30. If payments are not made timely, delinquent interest accrues. If the taxes are not paid within subsequent statutory periods, the property tax lien will be sold at public auction. The County bills and collects the property taxes and remits collections to the District on a monthly basis. No provision has been made for uncollected taxes, as all taxes are deemed collectible.

Property taxes are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. These amounts are recorded as revenue in the subsequent year when they are available or collected.

**Capital Assets**

Capital assets, which include land, landscaping, and storm drainage, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation. Capital expenditures for projects are capitalized as constructed.

Normal maintenance and repairs that do not add value to assets or materially extend the life of the assets are not capitalized. Improvements are capitalized and depreciated over the remaining lives of the capital assets. Depreciation is reported as a current charge in the statement of activities.

Capital assets are depreciated using the straight-line method over the following estimated useful life:

<b>Assets</b>	<b>Years</b>
Landscaping	15
Storm Drainage	30

**Liabilities:**

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

Note 1: Summary of Significant Accounting Policies - continued

**Deferred Outflows/Inflows of Resources:**

**Deferred Outflows of Resources**

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

**Deferred Inflows of Resources**

In addition to liabilities, the Statement of Financial Position and Balance Sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position and fund balance 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, unavailable property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

**Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

**Fund Balance Classification**

In the fund financial statements, governmental funds report aggregate amounts for five classes of fund balances on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not spendable in form which include items such as prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance.* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance.* These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the District's Board of Directors, the District's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the District's Board of Directors removes the specified use by taking the same type of action imposing the commitment.

#### Note 1: Summary of Significant Accounting Policies - continued

*Assigned fund balance.* This classification reflects the amounts constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The intended use may be expressed by the Board or other individual's authorized to assign funds to be used for a specific purpose. Unlike commitments, assignments are generally only temporary and do not require a formal action to remove the assignment.

*Unassigned fund balance.* This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned- in order as needed.

#### **Use of Estimates**

The preparation of financial statements in conformity with US 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Note 2: Stewardship, Compliance and Accountability

##### **Budgets and Budgetary Accounting**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- As required by State statutes, budgets are legally adopted for all funds of the District on a basis consistent with GAAP.
- On or before October 15th, District Management submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 15, the budget is legally enacted through passage of a resolution.

Appropriations are adopted at total fund expenditure level. District Management is authorized to transfer budgeted amounts within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board. The budget is only amended in conformity with Colorado Revised Statutes which allows the District to amend the budget and adopt a supplementary appropriation if money for a specific purpose, other than ad valorem taxes, becomes available to meet a contingency. The level of control in the budget at which expenditures exceeded appropriations is at the fund level. All appropriations lapse at year end.

Deer Meadows Metropolitan District  
Notes to the Financial Statements  
December 31, 2018

[Note 2: Stewardship, Compliance and Accountability– continued](#)

**TABOR Amendment – Revenue Spending Limitation Amendment**

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20 commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. Spending and revenue limits are determined based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves must be at least 3% of Fiscal Year Spending excluding bonded debt service, federal grants and sales of assets. The District has reserved a portion of its December 31, 2018 year-end fund balance in the General Fund for emergencies as required under TABOR of \$834 which is the approximate required reserve at December 31, 2018.

The District's management believes it is in compliance with the provisions of TABOR, as it is currently understood. However, TABOR is complex and subject to interpretation. Many of the provisions may not become fully understood without judicial review.

[Note 3: Cash and Investments](#)

At December 31, 2018, cash and investments on deposit with financial institutions are classified in the accompanying financial statements as follows:

Cash and Investments	\$ 31,882
Restricted Cash and Investments	16,093
Total	<u>\$ 47,975</u>

The following is a summary of deposits and investment held by the District at December 31, 2018:

<u>Type</u>	<u>Ratings per Standard &amp; Poor's</u>	<u>Carrying Value</u>
Deposits with Financial Institutions		\$ 47,955
ColoTrust Plus+	AAAm	20
		<u>\$ 47,975</u>

**Cash Deposits**

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

### Note 3: Cash and Investments– continued

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

#### **Investments**

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

As of December 31, 2018, the District invested in the Colorado Local Governmental Liquid Asset Trust (COLOTRUST), a local government investment vehicle established for local governmental entities in Colorado to pool surplus funds. COLOTRUST offers two investment options: COLOTRUST PRIME and COLOTRUST PLUS+. As an investment pool, COLOTRUST operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. COLOTRUST limits its investments to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. The custodian's internal records identify the investments owned by participating governments. COLOTRUST PLUS+ records its investment at fair value and the District records its investment in COLOTRUST PLUS+ using the net asset value method. There are no unfunded commitments and there is no redemption notice period.

**Custodial Credit Risk:** At December 31, 2018, all of the District's deposits and investments were insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

**Interest Rate Risk:** Colorado Revised Statutes (CRS) limit investment maturities to five years or less unless formally approved by the Board. In accordance with CRS, the District manages its exposure to declines in fair value by limiting the weighted average maturity of its investments.

**Credit Risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District follows the general provisions of the Colorado Revised Statutes (CRS) which limits the District's exposure to credit risk. CRS specify investment instruments meeting defined rating and risk criteria in which local governmental entities may invest. The allowed investments may include but are not limited to the following:

- Certain money market funds
- Certain certificates of deposit
- Local government investment pools

Deer Meadows Metropolitan District  
Notes to the Financial Statements  
December 31, 2018

**Note 4: Capital Assets**

Capital asset activity for the year ended December 31, 2018 was as follows:

	<b>Beginning Balance Restated</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 289,940	\$ -	\$ (1,931)	\$ 288,009
Total capital assets, not being depreciated	289,940	-	(1,931)	288,009
Capital assets being depreciated:				
Landscaping	164,219	-	-	164,219
Storm Drainage	122,238	-	-	122,238
Total capital assets being depreciated	286,457	-	-	286,457
Less Accumulated Depreciation for:				
Landscaping	(21,896)	(10,948)	-	(32,844)
Storm Drainage	(8,150)	(4,075)	-	(12,225)
Total accumulated depreciation	(30,046)	(15,023)	-	(45,069)
Total capital assets being depreciated, net	256,411	(15,023)	-	241,388
Capital assets, net	\$ 546,351	\$(15,023)	\$ (1,931)	\$ 529,397

**Note 5: Long-term Obligations**

**General Obligation Limited Tax Bonds, Series 2007 ("Series 2007"):**

Changes in long-term obligation for the year ended December 31, 2018 are as follows:

<b>Note</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
Series 2007 Bonds	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000	\$ 1,150,000
Developer obligation	9,500	-	(9,500)	-	-
	<u>\$ 2,595,000</u>	-	<u>\$ (9,500)</u>	<u>\$ 2,500,000</u>	<u>\$ 1,150,000</u>

On June 7, 2007, the District issued \$2,500,000 of General Obligation Limited Tax Bonds, Series 2007 bonds for the purpose of paying project costs, providing for capitalized interest and for paying the costs of issuance. The Series 2007 Bonds bear an interest rate of 5.5% and consist of term bonds due December 1, 2026. The bonds are subject to mandatory sinking fund redemption commencing on December 1, 2011 and on each December 1 thereafter in increasing amounts annually to the maturity of the bonds. Bonds maturing on or after December 31, 2016 are not subject to a redemption premium. Interest payments are calculated based on a 360-day year and are due June 1 and December 1.

The bonds are secured by and payable from the pledged revenue which includes (i) the Required Mill Levy (ii) the Development Fees, (iii) the portion of specific ownership tax which is collected as a result of the imposition of the required mill levy, and (iv) any other legally available monies which the District determines to be treated as pledged revenue. 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,

Deer Meadows Metropolitan District  
Notes to the Financial Statements  
December 31, 2018

**Note 5: Long-term Obligations– continued**

and interest on the bonds as the same become due and payable. The maximum required mill levy is 50 mills, and so long as the Surplus Fund is in existence, not less than 35 mills, adjusted for changes in the ratio of actual value to assessed value of property within the district.

The District has been unable to make the required principal and interest payments. The failure to pay principal and interest on the Series 2007 Bonds when due does not constitute default under the agreement. Any unpaid interest amounts shall compound semi-annually on each interest payment date at 5.5%. At December 31, 2018, unpaid interest under this agreement amounted to \$729,773 and unpaid principal amount to \$995,000. Interest will continue to accrue on the unpaid interest until such time all unpaid interest is paid in full.

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2007 bonds. Because of uncertainty of payments related to the unpaid principal and interest amounts, the schedule does not include an adjustment for these amounts. Debt service requirements below are based on the original maturity schedule, for the Series 2007 bonds. Until as such time as the District pays the unpaid amounts, actual interest amounts are expected to exceed the required amounts.

Year Ending December 31,	Principal	Interest	Total
2019	\$ 155,000	\$ 82,775	\$ 237,775
2020	165,000	74,250	239,250
2021	175,000	65,175	240,175
2022	180,000	55,550	235,550
2023	190,000	45,650	235,650
2024-2026	640,000	71,775	711,775
<b>Scheduled amounts due</b>	1,505,000	\$ 395,175	\$ 1,900,175
<b>Past due amounts</b>	995,000		
<b>Total</b>	\$ 2,500,000		

Under the Service Plan, the District is permitted to issue bond indebtedness of up to \$3,000,000. As of December 31, 2018, \$2,500,000 has been issued, leaving an authorized but unissued balance of \$500,000.

**Developer Debt**

The District entered into an agreement with the Developer to fund the 2017 operations shortfall. Interest accrued at 8% per annum from the date of the advance. At December 31, 2018, all amounts have been repaid to the developer under this agreement.

#### Note 6: Risk Management

The District is exposed to various risks of loss related to general liability, torts, theft of, damage to, and destruction of assets, and errors and omissions. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“the Pool”). The Pool is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public official’s liability, property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. During the year ended December 31, 2018, the Pool has made no distributions nor required additional contributions from the District.

#### Note 7: Reconciliation of Government-Wide and Fund Financial Statements

##### **Explanation of differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position**

The governmental funds balance sheet includes reconciliation between fund balance- total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. Explanation of the reconciling items is as follows:

Capital assets of \$574,466, less accumulated depreciation of \$45,069 or a net book value of \$529,397 are not financial resources and therefore are not reported in the funds.

Long-term liabilities are not due and payable in the current period and; therefore, are not reported in the funds. Notes payable amounted to \$2,500,000 and interest payable amounted to \$729,773 for a total of \$3,229,773.

##### **Explanation of Difference between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. Explanation of the reconciling items is as follows:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Depreciation expense was \$15,023.

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position. In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. The amount of the proceeds in excess of the gain was \$1,931.

Deer Meadows Metropolitan District  
Notes to the Financial Statements  
December 31, 2018

[Note 7: Reconciliation of Government-Wide and Fund Financial Statements – continued](#)

The issuance of long-term debt (e.g. notes payable) 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. The details of this difference are as follows:

Principal payments on developer obligations	\$ 9,500
Change in accrued interest	<u>39,961</u>
Net adjustment	<u>\$ 49,461</u>

[Note 9: Prior Period Restatements](#)

The accompanying financial statements reflect adjustments resulting from a restatement of beginning net position on the statement of net position as of December 31, 2018.

- (a) Land of \$289,940 was not recorded on the books at the date of donation.
- (b) Certain capital assets were not properly re-classified from construction in progress in 2016 and then properly depreciated. The current year adjustment represents accumulated depreciation on those assets in the amount of \$30,046.
- (c) In January 2017, the Developer forgave the principal and accrued interest due under the Developer Amended and Restated Financing and Reimbursement Agreement in the amount \$3,880,318. The accrued interest of \$1,171,716 had not been properly accrued through this date and the debt was not properly removed from the books upon the termination. The net effect of this adjustment amounted to \$2,708,602.
- (d) In 2017, the District included \$19,994 as developer debt for operations. These amounts were not operation advances.
- (e) In 2017, the accrued interest on the 2007 Series Bonds was understated by \$9,464.

Summary of adjustments as follows:

Land at fair market value	\$ 289,940
Depreciation of capital assets	(30,046)
Forgiveness of debt, net of interest	2,708,602
Correction of developer debt – operations	19,994
Additional interest accrual for 2007 Bonds	<u>(9,464)</u>
Total prior period restatement	<u>\$ 2,979,026</u>

## Supplementary Information

### Schedule of Revenues, Expenditures and Changes in Fund Balances – Actual and Budget – Debt Service Fund

**Deer Meadows Metropolitan District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Actual and Budget - Debt Service**  
**For the year ended December 31, 2018**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Property Tax	\$ 136,944	\$ 136,938	\$ (6)
Specific Ownership Tax	10,271	11,892	1,621
Development Fees	90,000	80,000	(10,000)
Other Revenues	-	81	81
Total Revenues	<u>237,215</u>	<u>228,911</u>	<u>(8,304)</u>
<b>Expenditures</b>			
Treasurer's Fees	2,739	2,739	-
Bank Fees	3,500	3,530	(30)
Interest	230,976	218,060	12,916
Total Expenditures	<u>237,215</u>	<u>224,329</u>	<u>12,886</u>
<b>Net Changes in Fund Balance</b>	-	4,582	4,582
Fund Balance, beginning	10,770	12,529	1,759
<b>Fund Balance, ending</b>	<u><u>\$ 10,770</u></u>	<u><u>\$ 17,111</u></u>	<u><u>\$ 6,341</u></u>