

CHERRYLANE METROPOLITAN DISTRICT
ADAMS COUNTY, COLORADO

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

December 31, 2018



Crady, Puca & Associates

Certified Public Accountants & Consultants

**CHERRYLANE METROPOLITAN DISTRICT
ADAMS COUNTY, COLORADO**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cherrylane Metropolitan District
Adams County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Cherrylane 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 Cherrylane Metropolitan District as of December 31, 2018 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii-vi and budgetary comparison information on page 18 be presented to supplement the basic financial statements. Such 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. 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 schedules on pages 19-20 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual budgetary comparison schedules are the responsibility of management and were derived from and relate 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 schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Crady, Puca & Associates

Aurora, Colorado
June 4, 2019

Cherrylane Metropolitan District

Management's Discussion and Analysis

December 31, 2018

As management of Cherrylane Metropolitan District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2018. This is the first year the District has produced an independently audited financial statement report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. As this is the first year the District has produced an independently audited financial statement report only the current year's government wide financial statements are presented. Current year to prior year comparisons will be presented below in future years to help users evaluate the results of the District over the past two years.

The Statement of Net Position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District utilized 3 governmental funds for 2018; the General Fund, Debt Service Fund, and Capital Projects Fund.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing

decisions. The governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities on page 5 of this report.

The District adopts an annual appropriated budget for each of its governmental funds. Budgetary comparisons for all funds have been provided on pages 18-20 to demonstrate compliance with this budget.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found starting on page 6 of this report.

Government-wide Financial Analysis: The following table shows a condensed statement of net position as of December 31, 2018 derived from the government-wide financial statements. There is no comparison with the prior year as this is the first year the District has been audited. Comparison between the current and prior years will appear starting in next year's audit report.

**Cherrylane Metropolitan District
Net Position**

	<u>Governmental Activities</u>
	<u>2018</u>
Assets:	
Cash and investments	\$ 400,471
Due from county treasurer	813
Property Tax Receivable	163,758
Prepays	2,508
Total Assets	567,550
Liabilities	
Current liabilities	205,422
Long-term and other liabilities	6,215,624
Total Liabilities	6,421,046
Deferred Inflows	
Unavailable revenue - property taxes	163,758
Total Deferred Inflows	163,758
Net Position:	
Restricted for emergencies	826
Restricted for debt service	361,852
Unrestricted	(6,379,932)
Total Net Position	\$ (6,017,254)

At the end of the current fiscal year, the District has a negative unrestricted net position which results from the District conveying its infrastructure to the City of Thornton but having the liability for the debt issued to construct the infrastructure.

The net position for the year ended December 31, 2018 is summarized in the following table:

**Cherrylane Metropolitan District
Change in Net Position**

	Governmental Activities
	<u>2018</u>
Revenues:	
Property taxes	119,931
Interest and other income	6,275
Total Revenues	126,206
Expenses:	
General government	29,342
Interest on long term debt	290,168
Debt issuance costs	288,115
Conveyance of infrastructure	5,474,925
Total Expenses	6,082,550
Change in Net Position	(5,956,344)
Net Position- Beginning	(60,910)
Net Position- Ending	\$ (6,017,254)

The primary contributing factors for the negative net position for 2018 is the issuance of debt for infrastructure which was conveyed to the City of Thornton.

Financial Analysis of the District's Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, the unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund revenue was \$27,286 and comprised of property and specific ownership tax. General Fund expenditures were \$27,519 and comprised primarily of professional fees for accounting and legal services and insurance.

Capital Fund expenditures were \$5,474,925 for the acquisition of infrastructure that was then conveyed to the Town of Thornton. The source to fund the capital expenditures was a developer advance of \$5,474,595. There was no other revenue for the Capital Fund.

Debt Fund revenue was \$98,920 of which \$92,646 came from property and specific ownership tax. The balance of revenue was from interest earned on tax collections and cash investments.

As of the end of 2018, the District's governmental funds reported an ending fund balance of \$396,628. Of this fund balance, \$361,852 is being held for spending for future year's debt service, \$826 is being held for emergencies and the remainder is held for future general administrative and operations expenditures.

Budget variances: The General Fund ending fund balance finished the year \$29,776 ahead of budget primarily because of expenditures less than budget for accounting and legal fees, and elections. At the time the budget was prepared, the District's role in day-to-day operations and maintenance had not been determined. Subsequent to adoption of the budget, the determination was made that all day-to-day operations would be administered by a homeowners association. A full election regarding membership of the Board of Directors was budgeted for but ultimately the full election was cancelled as there were no candidates for open positions on the Board. A budget to actual statement for the General Fund can be found on page 18 of this report.

The Capital Fund ending fund balance finished the year with a \$0 fund balance as budgeted. A budget to actual schedule for the Capital Fund can be found as part of the supplementary information on page 19 of this report.

The Debt Service Fund ending fund balance finished the year \$125,113 more than budget as a result of 1) higher than budgeted revenue resulting from higher than budgeted interest income and 2) lower than budgeted expenditures for interest on bonds and lower cost of issuance related to bond issuance costs. A budget to actual schedule for the Debt Fund can be found as part of the supplementary information on page 20 of this report.

Capital assets: After acquiring infrastructure from the developer totaling \$5,474,925, all of which was conveyed to the City of Thornton, the District's total net capital assets were \$0 at the end of 2018. Additional information as well as a detailed classification of the District's net capital assets can be found in the Notes to the Financial Statements on page 13 of this report.

Long-term debt: During 2018, the District issued Bonds to partially repay balances owed to the Developer and finished the year with an overall balance of \$6,215,624. Further detail of long-term debt can be found on pages 13 – 15 of this report.

Request for Information: This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cherrylane Metropolitan District, c/o Marchetti & Weaver, LLC, 245 Century Circle, Suite 103, Louisville, CO 80027, (720) 210-9137.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CHERRYLANE METROPOLITAN DISTRICT
Statement of Net Position
December 31, 2018

	Total Governmental Activities
Assets:	
Cash and investments	\$ 39,247
Cash and investments - restricted	361,224
Due from county treasurer	813
Property tax receivable	163,758
Prepays	2,508
Total assets	567,550
Liabilities:	
Accounts payable	7,164
Accrued interest	198,258
Bonds and developer payables:	
Due within one year	-
Due in more than one year	6,215,624
Total liabilities	6,421,046
Deferred inflows of resources:	
Unavailable revenue - property taxes	163,758
Total deferred inflows of resources	163,758
Net position:	
Net investment in capital assets	-
Restricted for emergencies	826
Restricted for debt service	361,852
Unrestricted	(6,379,932)
Total net position	\$ (6,017,254)

The accompanying notes are an integral part of this financial statement.

CHERRYLANE METROPOLITAN DISTRICT
Statement of Activities
For the Year Ended December 31, 2018

	Total Governmental Activities
Expenditures:	
Governmental activities:	
Accounting and audit	\$ 9,034
Legal	12,880
Insurance, bonds and dues	3,602
Treasurer fees	1,664
Bank fees	10
Elections	2,152
Interest on long-term debt	290,168
Bond issuance costs	288,115
Conveyance of infrastructure	5,474,925
Total expenditures	6,082,550
General Revenues:	
Property and specific ownership taxes	119,931
Interest income	6,275
Total general revenues	126,206
Change in net position	(5,956,344)
Net position, beginning of year	(60,910)
Net position, end of year	\$ (6,017,254)

The accompanying notes are an integral part of this financial statement.

FUND FINANCIAL STATEMENTS

CHERRYLANE METROPOLITAN DISTRICT
Balance Sheet
Governmental Funds
December 31, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and investments	\$ 39,247	\$ -	\$ -	\$ 39,247
Cash and investments - restricted		-	361,224	361,224
Due from county treasurer	185	-	628	813
Property tax receivable	35,521	-	128,237	163,758
Prepays	2,508	-	-	2,508
Total assets	<u>\$ 77,461</u>	<u>\$ -</u>	<u>\$ 490,089</u>	<u>\$ 567,550</u>
Liabilities:				
Accounts payable	\$ 7,164	\$ -	\$ -	\$ 7,164
Total liabilities	<u>7,164</u>	<u>-</u>	<u>-</u>	<u>7,164</u>
Deferred inflows of resources:				
Unavailable revenue - property taxes	35,521	-	128,237	163,758
Total deferred inflows of resources	<u>35,521</u>	<u>-</u>	<u>128,237</u>	<u>163,758</u>
Fund balance:				
Nonspendable	2,508	-	-	2,508
Restricted for emergencies	826	-	-	826
Restricted for debt service	-	-	361,852	361,852
Unassigned	31,442	-	-	31,442
Total fund balance	<u>34,776</u>	<u>-</u>	<u>361,852</u>	<u>396,628</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 77,461</u>	<u>\$ -</u>	<u>\$ 490,089</u>	<u>\$ 567,550</u>
Amounts reported for governmental activities in the statement of net position are different because:				
Total fund balance - governmental funds				396,628
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.				(6,413,882)
Net position of governmental activities				<u>\$ (6,017,254)</u>

The accompanying notes are an integral part of this financial statement.

CHERRYLANE METROPOLITAN DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Property tax	\$ 25,233	\$ -	\$ 85,679	\$ 110,912
Specific ownership tax	2,052	-	6,967	9,019
Interest income	1	-	6,274	6,275
Total revenues	<u>27,286</u>	<u>-</u>	<u>98,920</u>	<u>126,206</u>
Expenditures:				
Current:				
General government:				
Accounting and audit	9,034	-	-	9,034
Legal	12,880	-	-	12,880
Insurance, bonds and dues	3,064	-	538	3,602
Treasurer fees	379	-	1,285	1,664
Bank fees	10	-	-	10
Elections	2,152	-	-	2,152
Debt service:				
Interest	-	-	97,229	97,229
Bond issuance costs	-	-	288,115	288,115
Capital outlay	-	5,474,925	-	5,474,925
Total expenditures	<u>27,519</u>	<u>5,474,925</u>	<u>387,167</u>	<u>5,889,611</u>
Excess of revenue over (under) expenditures	<u>(233)</u>	<u>(5,474,925)</u>	<u>(288,247)</u>	<u>(5,763,405)</u>
Other financing sources (uses):				
General obligation bonds issued	-	-	3,764,000	3,764,000
Advance on developer debt	-	5,474,925	-	5,474,925
Repayment of developer debt	-	-	(3,113,901)	(3,113,901)
Total other financing sources (uses)	<u>-</u>	<u>5,474,925</u>	<u>650,099</u>	<u>6,125,024</u>
Net change in fund balance	(233)	-	361,852	361,619
Fund balance, beginning of year	<u>35,009</u>	<u>-</u>	<u>-</u>	<u>35,009</u>
Fund balance, end of year	<u>\$ 34,776</u>	<u>\$ -</u>	<u>\$ 361,852</u>	<u>\$ 396,628</u>

The accompanying notes are an integral part of this financial statement.

CHERRYLANE METROPOLITAN DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance of the Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2018

	Total Governmental Funds
	<u> </u>
Net change in fund balance of the governmental funds	\$ 361,619
Amounts reported for governmental activities in the statement of activities are different because:	
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 or ultimately conveyed to the City.	-
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.	(6,125,024)
Some expense reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(192,939)</u>
Change in net position of governmental activities	<u><u>\$ (5,956,344)</u></u>

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

Reporting Entity

The District is a quasi-municipal corporation organized by a court order dated February 21, 2013 and operated pursuant to provisions set forth in the Colorado Special District Act. The District was established to finance and construct certain public infrastructure to support the needs of a planned residential development in Adams County, Colorado.

The District is to convey the completed public improvements to the City of Thornton or other appropriate jurisdiction.

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.

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, contributions and other revenues 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.

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 are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The District reports the following major governmental funds:

General Fund – is the District's primary operating fund. It accounts for all financial resources of the District not accounted for in another fund.

Capital Projects Fund – accounts for all financial resources for capital outlays, including the acquisition or construction of infrastructure costs.

Debt Service Fund - accounts for payments on general obligation bond debt and developer debt.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

The District records certain investments at fair value. Investments held in the local government investment pool are reported at net asset value as allowed under US GAAP.

Prepays

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 prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

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 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.

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 infrastructure assets such as roads, water and sanitation, and parks are recreation 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 assets are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the capital assets. Depreciation on property that will remain assets of the District is reported as a current charge in the statement of activities. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. All capital assets acquired or constructed by the District have been conveyed to other governments.

1. **Summary of Significant Accounting Policies (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Deferred Outflows/Inflows 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.

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

Long-Term Obligations

In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activity.

Fund Balance

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. As of December 31, 2018, the District had not adopted a policy for committed fund balance.

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. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed. As of December 31, 2018, the District had not adopted a policy designating District personnel to determine amounts that may be assigned.

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.

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance (continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. Although not included in a formal policy, the District considers decreases in fund balance to first reduce committed, then assigned, and then unassigned balances, in that order.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. 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.

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.

2. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with US GAAP. State law requires the District to adopt annual appropriated budgets for all funds.

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

On or before October 15 of each year, the District's accountant submits to the Board of Directors a recommended budget which details the necessary property taxes needed along with other available revenues to meet the District's operating requirements.

After a required publication of "Notice of Proposed Budget" and a public hearing, the District adopts the proposed budget and an appropriating resolution, which legally appropriates expenditures for the upcoming year.

2. Stewardship, Compliance, and Accountability (continued)

Budgets and Budgetary Accounting (continued)

Prior to December 15, the District computes and certifies to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.

The budget and the appropriating resolution are adopted prior to December 31.

After adoption of the budget resolution, the District may make the following changes: (a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; (b) it may approve supplemental appropriations to the extent of revenues in excess of the estimated revenues in the budget; (c) it may approve emergency appropriations; and (d) it may approve the reduction of appropriations for which originally estimated revenues are insufficient. 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.

TABOR Amendment - Revenue and 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 totaling \$826 which is the approximate required reserve at December 31, 2018.

On November 6, 2012, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all current levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

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.

CHERRYLANE METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2018

3. Detailed Notes on the Funds

Deposits and Investments

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

Cash and investments	\$ 39,247
Cash and investments - restricted	<u>361,224</u>
	<u>\$ 400,471</u>

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

<u>Type</u>	<u>Ratings per Standards & Poor's</u>	<u>Fair Value as of December 31, 2018</u>
Deposits with financial institutions		\$ 41,119
COLOTRUST PLUS+	AAAm	<u>359,352</u>
Total		<u>\$ 400,471</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.

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. As an investment pool, COLOTRUST operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. The District invests in COLOTRUST PLUS+ which may invest in U.S. Treasuries, government agencies, the highest-rated commercial paper, certain corporate securities, certain money market funds, and certain repurchase agreements, and 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.

CHERRYLANE METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2018

3. Detailed Notes on the Funds (continued)

Investments (continued)

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 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
- Local government investment pool

Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 5,474,925	\$ (5,474,925)	\$ -
Total capital assets, not being depreciated	-	5,474,925	(5,474,925)	-
Capital assets, net	\$ -	\$ 5,474,925	\$ (5,474,925)	\$ -

Long-Term Obligations

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2018A GO Bonds	\$ -	\$ 3,190,000	\$ -	\$ 3,190,000	\$ -
Series 2018B GO Bonds	-	574,000	-	574,000	-
Developer advances— operations	90,600	-	-	90,600	-
Developer advances – capital	-	5,474,925	\$ (3,113,901)	2,361,024	-
Governmental activities long-term debt	<u>\$ 90,600</u>	<u>\$ 9,238,925</u>	<u>\$ (3,113,901)</u>	<u>\$ 6,215,624</u>	<u>\$ -</u>

3. Detailed Notes on the Funds (continued)

General Obligation Bonds

On May 2, 2018, the District issued \$3,190,000 of General Obligation Limited Tax Convertible to Unlimited Tax Bonds Series 2018A ("2018A Senior Bonds") and \$574,000 of Subordinate General Obligation Limited Tax Bonds Series 2018B ("2018B Subordinated Bonds") to finance public improvements, pay cost of issuance of the 2018A Senior Bonds and the 2018B Subordinate Bonds, and fund Capitalized Interest Fund and the Senior Reserve Bond Fund. The 2018A Senior Bonds bear interest at a rate of 5.25%, payable semiannually on each June 1 and December 1, commencing on December 1, 2018, and maturing on December 1, 2047. The 2018B Subordinate Bonds bear interest at a rate of 7.375%, payable annually on December 15, commencing on December 15, 2018, to the extent that pledged revenue is available, maturing on December 15, 2047.

The 2018A Senior Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2020 and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, commencing on December 1, 2023, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The Series 2018B Subordinate Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, commencing on December 15, 2023, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The 2018B Subordinate Bonds are cash flow bonds and are subject to mandatory redemption from subordinate pledged revenue, if any, on deposit in the subordinate bond fund.

The 2018A Senior Bonds are secured by the Senior Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, capital fees (if any), and any other legally available funds as determined by the District. In connection with the 2018A Senior Bonds, the District is required to maintain a Reserved Fund in the amount of \$251,750 which was funded upon issuance. In addition, the District is required to maintain a Senior Surplus Fund to a maximum amount of \$319,000. As of December 31, 2018, the Senior Surplus Fund had a balance of \$104,125.

The 2018B Subordinated Bonds are secured by the Subordinate Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Subordinated Required Mill Levy, capital fees (if any), any other legally available funds as determined by the District, and any amounts remaining in the Senior Surplus Fund after termination of the fund.

CHERRYLANE METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2018

3. Detailed Notes on the Funds (continued)

General Obligation Bonds (continued)

The following is a summary of the annual long-term debt principal and interest requirements for the 2018A Senior Bonds. Because of the uncertainty of the timing of the principal and interest payments on the 2018B Subordinate Bonds, no schedule of principal and interest payments is presented.

Year Ending December 31,	Principal	Interest	Total
2019	\$ -	167,475	167,475
2020	15,000	167,475	182,475
2021	30,000	166,688	196,688
2022	35,000	165,113	200,113
2023	35,000	163,275	198,275
2024-2028	250,000	783,563	1,033,563
2029-2033	385,000	704,550	1,089,550
2034-2038	560,000	586,163	1,146,163
2039-2043	790,000	416,325	1,206,325
2044-2047	1,090,000	166,688	1,256,688
Total	\$ 3,190,000	3,487,315	6,677,315

At December 31, 2018, the District had total authorized debt of \$63,000,000 of which \$3,764,000 has been issued, leaving an authorized but unissued balance of \$59,236,000. Per the District's Service Plan, the District cannot issue debt in excess of \$4,500,000 without the approval of the City.

Developer Obligations

On November 11, 2015, the District entered into an agreement with the Developer to fund the operations costs shortfall of the District through December 31, 2018. Interest is to be accrued on this obligation at 8% per annum from the date of the advance. As of December 31, 2018, the District owes the Developer \$90,600 in principal under this agreement. In addition, the District owes the Developer \$12,567 of unpaid accrued interest. In the event the District has not paid or reimbursed the Developer for the operations shortfall by November 15, 2051, any amount of principal or accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full.

In April 2018, The District approved a resolution regarding the acceptance of district eligible costs for public improvements funded by the Developer. The resolution approved eligible costs for developer reimbursement in the amount of \$5,474,925. During the year, the District issued 2018A Senior Bonds and the 2018A Subordinate Bonds and paid \$3,113,901 to the Developer under this resolution. As of December 31, 2018, the District is obligated to the Developer for \$2,361,024 under this resolution. The resolution provides for payments subject to annual appropriations and does not guarantee future payments. Simple interest is to be accrued on this obligation at 8% per annum from the date of the advance. As of December 31, 2018, the District is obligated to the Developer for \$143,748 of unpaid accrued interest.

4. Other Information

Related Party

All of the Board of Directors are associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Risk Management

The District is exposed to various risks of loss related to workers compensation, general liability, unemployment, 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.

5. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Differences between the Governmental Funds 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:

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. The details of this difference are as follows:

Bonds payable	\$ (3,764,000)
Developer advances	(2,451,624)
Accrued interest on bonds and developer advances	(198,258)
Net adjustment	<u>\$ (6,413,882)</u>

5. Reconciliation of Government-Wide and Fund Financial Statements (continued)

Explanation of Differences 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 or ultimately conveyed to the City. The details of this difference are as follows:

Conveyance of infrastructure	\$ (5,474,925)
Capital outlay	5,474,925
Net adjustment	<u>\$ -</u>

The issuance of long-term debt (e.g. bonds 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. Neither transaction, however, has any effect on net position. The details of this difference are as follows:

Debt issued or incurred:	
General obligation bonds	\$ (3,764,000)
Developer advances	(5,474,925)
Repayments:	
Developer advances	<u>3,113,901</u>
Net adjustment	<u>\$ (6,125,024)</u>

Another element of the reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The difference is due to accrued interest on the general obligation bonds and developer debt of \$192,939.

REQUIRED SUPPLEMENTARY INFORMATION

CHERRYLANE METROPOLITAN DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Property tax	\$ 25,234	\$ 25,233	\$ (1)
Specific ownership tax	1,514	2,052	538
Interest income	-	1	1
Total revenues	26,748	27,286	538
Expenditures:			
General government:			
Accounting and audit	19,790	9,034	10,756
Legal	30,000	12,880	17,120
Professional services	7,500	-	7,500
Insurance, bonds and dues	2,500	3,064	(564)
Treasurer fees	379	379	-
Bank fees	60	10	50
Elections	10,000	2,152	7,848
Miscellaneous and contingency	4,800	-	4,800
Total expenditures	75,029	27,519	47,510
Excess of revenues over (under) expenditures	(48,281)	(233)	48,048
Other financing sources (uses):			
Developer advances	29,603	-	(29,603)
Total other financing sources (uses)	29,603	-	(29,603)
Net change in fund balance	(18,678)	(233)	18,445
Fund balance, beginning of year	23,678	35,009	11,331
Fund balance, end of year	\$ 5,000	\$ 34,776	\$ 29,776

The accompanying notes are an integral part of this financial statement.

SUPPLEMENTARY INFORMATION

CHERRYLANE METROPOLITAN DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Capital Projects Fund
For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Other income	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Capital Outlay	3,252,718	5,500,000	5,474,925	25,075
Total expenditures	<u>3,252,718</u>	<u>5,500,000</u>	<u>5,474,925</u>	<u>25,075</u>
Excess of revenues over (under) expenditures	<u>(3,252,718)</u>	<u>(5,500,000)</u>	<u>(5,474,925)</u>	<u>25,075</u>
Other financing sources (uses):				
Developer advances	3,252,718	5,500,000	5,474,925	(25,075)
Total other financing sources (uses)	<u>3,252,718</u>	<u>5,500,000</u>	<u>5,474,925</u>	<u>(25,075)</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.

CHERRYLANE METROPOLITAN DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Debt Service Fund
For the Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Property tax	\$ 85,683	\$ 85,679	\$ (4)
Specific ownership tax	5,141	6,967	1,826
Interest income	-	6,274	6,274
Total revenues	90,824	98,920	8,096
Expenditures:			
General government:			
Treasurer fees	1,285	1,285	-
Insurance, bonds and dues	-	538	(538)
Miscellaneous	1,000	-	1,000
Debt service:			
Interest	126,462	97,229	29,233
Bond issuance costs	303,620	288,115	15,505
Total expenditures	432,367	387,167	45,200
Excess of revenues over (under) expenditures	(341,543)	(288,247)	53,296
Other financing sources (uses):			
General obligation bonds issued	3,831,000	3,764,000	(67,000)
Repayment of developer advances	(3,252,718)	(3,113,901)	138,817
Total other financing sources (uses)	578,282	650,099	71,817
Net change in fund balance	236,739	361,852	125,113
Fund balance, beginning of year	-	-	-
Fund balance, end of year	\$ 236,739	\$ 361,852	\$ 125,113

The accompanying notes are an integral part of this financial statement.