

FOXHILL METROPOLITAN DISTRICT NO. 1

(Douglas County, Colorado)

FINANCIAL STATEMENTS

with Independent Auditor's Report

DECEMBER 31, 2018

FOXHILL METROPOLITAN DISTRICT NO. 1

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Foxhill Metropolitan District No. 1
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Foxhill Metropolitan District No. 1 (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Foxhill Metropolitan District No. 1, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Economic Dependency

The District has not yet established a revenue base sufficient to pay its operational expenditures. As discussed in Note 10, the District may be dependent upon the developer of the District's service area to provide funding for such expenditures.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplemental information 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. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Fiscal Focus Partners, LLC

Greenwood Village, Colorado
May 11, 2020

BASIC FINANCIAL STATEMENTS

Foxhill Metropolitan District No. 1
STATEMENT OF NET POSITION
December 31, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 86,706	\$ 6,451	\$ 93,157
Cash and investments - restricted	1,400	-	1,400
Prepaid expenses	27	-	27
Capital assets not depreciated	4,018,888	2,515,582	6,534,470
Total assets	<u>4,107,021</u>	<u>2,522,033</u>	<u>6,629,054</u>
LIABILITIES			
Accounts payable	20,134	1,907	22,041
Due to other entities	96,937	-	96,937
Long-term liabilities			
Due in more than one year	4,179,922	2,452,372	6,632,294
Total liabilities	<u>4,296,993</u>	<u>2,454,279</u>	<u>6,751,272</u>
NET POSITION			
Net investment in capital assets	(161,034)	63,210	(97,824)
Restricted			
Emergency reserve (TABOR)	1,400	-	1,400
Unrestricted	(30,338)	4,544	(25,794)
Total net position (deficit)	<u>\$ (189,972)</u>	<u>\$ 67,754</u>	<u>\$ (122,218)</u>

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

Foxhill Metropolitan District No. 1
STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
General government	\$ 45,586	\$ 800	\$ -	\$ -	\$ (44,786)	\$ -	\$ (44,786)
Interest on long-term debt and related costs	165,076	-	-	-	(165,076)	-	(165,076)
Total government activities	\$ 210,662	\$ 800	\$ -	\$ -	\$ (209,862)	\$ -	\$ (209,862)
Business-type activities:							
Water operations	\$ 19,088	\$ 5,500	\$ -	\$ 180,000		166,412	166,412
Interest on long-term debt and related costs	98,658	-	-	-		(98,658)	(98,658)
Total	\$ 117,746	\$ 5,500	\$ -	\$ 180,000		\$ 67,754	\$ 67,754
Revenue:							
Intergovernmental revenue					15,931	-	15,931
Total revenue					15,931	-	15,931
Change in net position					(193,931)	67,754	(126,177)
Net position - Beginning					3,959	-	3,959
Net position - Ending					\$ (189,972)	\$ 67,754	\$ (122,218)

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

Foxhill Metropolitan District No. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and investments	\$ 86,706	\$ -	\$ 86,706
Cash and investments - restricted	1,400	-	1,400
Prepaid expense	27	-	27
Total assets	\$ 88,133	\$ -	\$ 88,133
LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 20,134	\$ -	\$ 20,134
Due to other entities	96,937	-	96,937
Total liabilities	117,071	-	117,071
FUND BALANCE			
Nonspendable:			
Prepaid expenses	27	-	27
Restricted:			
Emergency reserves	1,400	-	1,400
Unassigned	(30,365)	-	(30,365)
Total fund balance (deficit)	(28,938)	-	(28,938)
TOTAL LIABILITIES AND FUND BALANCE			
	\$ 88,133	\$ -	

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	
Capital assets	4,018,888
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position:	
Developer advance - principal and interest	(4,179,922)
Net position of governmental activities	\$ (189,972)

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

Foxhill Metropolitan District No. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE (DEFICITS) - GOVERNMENTAL FUNDS
Year Ended December 31, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Intergovernmental revenue	\$ 15,931	\$ -	\$ 15,931
Service fees	800	-	800
Total revenue	<u>16,731</u>	<u>-</u>	<u>16,731</u>
EXPENDITURES			
General government			
Accounting and administrative	4,973	-	4,973
Legal	40,613	-	40,613
Capital expenses	-	4,018,888	4,018,888
Total expenditures	<u>45,586</u>	<u>4,018,888</u>	<u>4,064,474</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(28,855)</u>	<u>(4,018,888)</u>	<u>(4,047,743)</u>
OTHER FINANCING SOURCES (USES)			
Developer advance	-	4,018,888	4,018,888
Developer advance reimbursement	-	(4,042)	(4,042)
Transfers from (to) other funds	(4,042)	4,042	-
Total other financing sources (uses)	<u>(4,042)</u>	<u>4,018,888</u>	<u>4,014,846</u>
NET CHANGE IN FUND BALANCE	<u>(32,897)</u>	<u>-</u>	<u>(32,897)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>3,959</u>	<u>-</u>	<u>3,959</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (28,938)</u>	<u>\$ -</u>	<u>\$ (28,938)</u>

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

Foxhill Metropolitan District No. 1
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) - GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

Net change in fund balances - Total governmental funds:	\$	(32,897)
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 costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.		4,018,888
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Developer advance		(4,018,888)
Repayment of Developer advance		4,042
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.		
Interest on Developer advance		<u>(165,076)</u>
Change in net position - Governmental activities:	\$	<u><u>(193,931)</u></u>

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

Foxhill Metropolitan District No. 1
STATEMENT OF NET POSITION
PROPRIETARY FUND
December 31, 2018

	Water Activity Enterprise Fund
ASSETS	
Cash and investments	\$ 6,451
Capital assets not being depreciated	2,515,582
Total assets	2,522,033
 LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable	\$ 1,907
Non-current liabilities:	
Long-term debt:	
Due in more than one year	2,452,372
Total liabilities	2,454,279
 NET POSITION	
Net investment in capital assets	63,210
Unrestricted	4,544
Total net position	\$ 67,754

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

Foxhill Metropolitan District No. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended December 31, 2018

	<u>Water Activity Enterprise Fund</u>
OPERATING REVENUE	
Water connection fees	\$ 5,500
Total operating revenue	<u>5,500</u>
OPERATING EXPENSES	
Operating expenses	<u>19,088</u>
Total operating expenses	<u>19,088</u>
OPERATING INCOME (LOSS)	<u>(13,588)</u>
NONOPERATING REVENUE (EXPENSE)	
Interest and fiscal charges	<u>(98,658)</u>
Total nonoperating revenue, net	<u>(98,658)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(112,246)</u>
CAPITAL CONTRIBUTIONS - TAP FEES	<u>180,000</u>
CHANGE IN NET POSITION	<u>67,754</u>
NET POSITION - BEGINNING OF YEAR	<u>-</u>
NET POSITION - END OF YEAR	<u><u>\$ 67,754</u></u>

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

FOXHILL METROPOLITAN DISTRICT NO. 1
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended December 31, 2018

	Water Activity Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 5,500
Cash payments to suppliers for goods and services	(17,181)
Net cash used in operating activities	<u>(11,681)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Tap fees received	180,000
Purchases of capital assets	(2,515,582)
Developer advance reimbursement - principal	(161,868)
Developer advance	2,515,582
Net cash provided by capital and related financing activities	<u>18,132</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,451
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 6,451</u></u>
RECONCILIATION OF OPERATING (LOSS) INCOME TO CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (13,588)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Effects of changes in operating assets and liabilities:	
Accounts payable	1,907
Total adjustments	<u>1,907</u>
Net cash used by operating activities	<u><u>\$ (11,681)</u></u>

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

Foxhill Metropolitan District No. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE (DEFICIT) - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2018

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original & Final</u>	<u>Actual</u>	
REVENUES			
Intergovernmental revenue	\$ -	\$ 15,931	\$ 15,931
Service fees	106,152	800	(105,352)
Water system acquisition PIF payments	240,000	-	(240,000)
Total Revenue	<u>346,152</u>	<u>16,731</u>	<u>(329,421)</u>
EXPENDITURES			
General government:			
District accounting and management	1,000	4,973	(3,973)
District engineer	5,000	-	5,000
Dues and subscriptions	1,500	-	1,500
Insurance	1,000	-	1,000
Legal	25,000	40,613	(15,613)
Water system capital payments	240,000	-	240,000
Water system monitoring and administrative costs	7,500	-	7,500
Contingency/miscellaneous	8,000	-	8,000
Total Expenditures	<u>289,000</u>	<u>45,586</u>	<u>243,414</u>
EXCESS OF REVENUE OVER (UNDER)			
EXPENDITURES	<u>57,152</u>	<u>(28,855)</u>	<u>(86,007)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from (to) other funds	<u>(55,000)</u>	<u>(4,042)</u>	<u>50,958</u>
Total other financing sources (uses)	<u>(55,000)</u>	<u>(4,042)</u>	<u>50,958</u>
NET CHANGE IN FUND BALANCE	2,152	(32,897)	(35,049)
FUND BALANCE - BEGINNING OF YEAR	1,262	3,959	2,697
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 3,414</u>	<u>\$ (28,938)</u>	<u>\$ (32,352)</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

1. DEFINITION OF REPORTING ENTITY

The Foxhill Metropolitan District No. 1 (the "District") is a quasi-municipal political subdivision of the State of Colorado organized on May 2, 2006. The District was organized to provide for construction and financing of street, safety control, water, sanitation, storm drainage and landscaping improvements. The District derives its revenue principally from intergovernmental revenues and developer advances.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in the primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements — The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the District. Both statements distinguish between governmental activities, which normally are supported by taxes and intergovernmental revenues, and business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position reports all of the financial and capital resources of the District. The difference between the assets and liabilities is reported as net position.

The statement of activities demonstrates the degree to which direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation — The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Those revenues susceptible to accrual are property taxes and are recognized as revenue by the District. All other revenue items, including developer advances, are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

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

Capital Projects Fund – The capital projects fund accounts for the financial resources to be used for the acquisition and construction of capital infrastructure.

The District reports the following major proprietary fund:

Enterprise Fund – The enterprise fund is used to account for those operations financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The District has one enterprise fund-the Water Activity Enterprise Fund. The intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges for services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

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

Cash equivalents — For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity date of three months or less when purchased, to be cash equivalents.

Capital Assets — Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets, as applicable.

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

Non-spendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted -This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process.

Unassigned – This classification includes the residual fund balance that does not meet any of the above criteria.

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

Estimates — The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deficits — The general fund reported a deficit in the fund financial statements as of December 31, 2018. It is anticipated that this deficit will be eliminated with the receipt of intergovernmental revenues and developer advances in 2019.

3. CASH AND INVESTMENTS

The District's cash and investments are classified in the accompanying financial statements as follows as of December 31, 2018:

Statement of net position:	
Cash and investments-unrestricted	\$93,157
Cash and investments-restricted	<u>1,400</u>
Total cash and investments	<u>\$94,557</u>

Cash and investments as of December 31, 2018 consist of the following:

Deposits	<u>\$94,557</u>
Total cash and investments	<u>\$94,557</u>

Deposits — The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

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

At December 31, 2018, the District's cash deposits had a bank balance of \$99,155 and a carrying balance of \$94,557.

Investments – The District has not adopted a formal investment policy, however, the District follows state statutes regarding investments.

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

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

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

- Obligations of the United States and certain U.S. government agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools
- Certain certificates of participation
- Certain securities lending agreements

Fair Value Measurement and Application - The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

As of December 31, 2018, the District had no investments.

4. CAPITAL ASSETS

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

	Balance at December 31, 2017	Additions	Reductions	Balance at December 31, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 4,018,888	\$ -	\$ 4,018,888
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ 4,018,888</u>	<u>\$ -</u>	<u>\$ 4,018,888</u>
	Balance at December 31, 2017	Additions	Reductions	Balance at December 31, 2018
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	2,515,582	\$ -	\$ 2,515,582
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ 2,515,582</u>	<u>\$ -</u>	<u>\$ 2,515,582</u>

5. LONG-TERM LIABILITIES

The following is an analysis of changes in the District's long-term liabilities for the year ended December 31, 2018:

	Balance at December 31, 2017	Additons	Reductions	Balance at December 31, 2018	Due Within One Year
Governmental activities:					
Promissory note - capital	\$ -	\$ 4,018,888	\$ 4,042	\$ 4,014,846	\$ -
Accrued interest on Promissory note	-	165,076	-	165,076	-
	<u>\$ -</u>	<u>\$ 4,183,964</u>	<u>\$ 4,042</u>	<u>\$ 4,179,922</u>	<u>\$ -</u>
	Balance at December 31, 2017	Additons	Reductions	Balance at December 31, 2018	Due Within One Year
Business-type activities:					
Promissory note - capital	\$ -	\$ 2,515,582	\$ 161,868	\$ 2,353,714	\$ -
Accrued interest on Promissory note	-	98,658	-	98,658	-
	<u>\$ -</u>	<u>\$ 2,614,240</u>	<u>\$ 161,868</u>	<u>\$ 2,452,372</u>	<u>\$ -</u>

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

Debt Authorization – On May 2, 2006, a majority of qualified electors of the District who voted in the election authorized the issuance of indebtedness. Pursuant to the Service Plan, the District is permitted to issue bond indebtedness of up to \$6,000,000. The issuance of any additional debt would require an amendment to the District’s Service Plan. At December 31, 2018, the District had \$6,000,000 of authorized but unissued debt.

Amended and Restated Funding and Reimbursement Agreement – On December 2, 2015 the District entered into an Amended and Restated Funding and Reimbursement Agreement with DCLA-2, LLC (the Developer). Under the terms of the agreement, the Developer agreed to advance funds to the District in an amount not to exceed \$500,000. The funds advanced under the agreement shall be applied to costs associated with formation, administration, and operations and maintenance of public facilities, and for other budgeted general fund expenditures during the term of this agreement. The agreement shall be renewable in one year terms at the time of budget approval of the District. The District agreed to issue a Revenue and Limited Tax Obligation Subordinate Promissory Note registered to Foxhill Development, Inc. to evidence the repayment obligation of loan advances. Amounts advanced under the terms of the agreement shall bear an interest rate of 2% plus the current Federal Reserve board prime rate. At December 31, 2018, no amounts were advanced to the District under this agreement.

Advance and Reimbursement Agreement – On December 2, 2015 the District entered into an Advance and Reimbursement Agreement with the Developer. Under the terms of the Advance and Reimbursement Agreement, the Developer agreed to advance funds to the District in an amount not to exceed \$6,000,000. The funds advanced under the agreement shall be applied solely to capital costs as established in the District’s annual budget. These funds are available to the District through December 2, 2045. The Developer may renew its obligation on an annual basis by providing notice to the District.

On June 7, 2018 the District executed a Revenue and Limited Tax Subordinate Promissory Note in an amount of \$6,000,000 registered to the Developer. The note bears an interest rate of 2% plus the current Federal Reserve Board Prime Rate. As of December 31, 2018, principal and accrued interest on the promissory note is \$4,014,846 and \$165,076, respectively.

Revenue and Limited Tax Obligation Promissory Note – On June 7, 2018, the Foxhill Water Activity Enterprise, an enterprise of the District, entered into a Revenue and Limited Tax Obligation Promissory Note in the amount of \$6,000,000 with the Developer pursuant to the Lease Purchase Agreement. The note bears an interest rate of 2% plus the current Federal Reserve Board prime rate. The maturity of the note is June 7, 2019 and will automatically be extended for successive one-year periods. The Developer may demand payment in full on December 31, 2038, or on any December 31 in any year thereafter. As of December 31, 2018, principal and accrued interest on the promissory note is \$2,353,714 and \$98,658, respectively.

6. AGREEMENTS

Amended and Restated Improvement Acquisition Agreement

On December 2, 2015, the District entered into an Amended and Restated Improvement Acquisition Agreement with the Developer wherein the Developer will design and construct certain

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

improvements on behalf of the District, and the District would acquire such improvements from the Developer or other appropriate entities. The purchase price shall be equal to the District's costs. As of the date of the agreement, the District did not have funds available to pay for the acquisition of improvements. The District agreed to acquire the improvements from bond proceeds and subordinate obligations issued to the Developer.

Inter-District Intergovernmental Agreement

On October 5, 2006, the District entered into an Inter-District Intergovernmental Agreement (IGA) with Foxhill Metropolitan District No. 2 (District No. 2). The IGA identifies the District as the service district and District No. 2 as the taxing district. The taxing district is to provide the funding and the necessary tax base for financing the construction, operation and maintenance of certain public improvements as defined by the Service Plan. The service district will obtain financing for construction of the public improvements, manage the construction and operation of the public improvements, and own, operate and maintain the public improvements to the extent permitted by the Service Plan.

Lease Agreement with Option to Purchase for Potable Water

On December 6, 2017, the Foxhill Water Activity Enterprise entered into an agreement with the Developer to provide water for outside irrigation through a potable water system to serve the residential lots located within the boundaries of the Foxhill Metropolitan District Nos. 1 and 2. The initial term of the lease began on the date the agreement was executed and terminated at the end of the District's fiscal year. The lease agreement automatically renews for consecutive one-year terms coinciding with the fiscal year of the District. The lease may terminate upon the earliest of any of the following events: (1) the purchase by the District of all of the water provided for in the agreement, (2) default by the District and the Developer's election to terminate the agreement, (3) mutual agreement of the parties. The District will pay a monthly fee based on the amount of water used negotiated by the parties. The District has an option to purchase the water rights being utilized by the District at fair market value of the water rights at the time of purchase or as agreed upon by the parties. The purchase price shall not exceed the fair market value as determined by an independent third party appraisal. The District may exercise the option to purchase the water rights upon successful completion and dedication of the potable water system for the District to serve its constituents.

7. NET POSITION

The District's net position includes three components: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2018, the District has net investment in capital assets calculated as follows:

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

	Governmental Activities	Business-type Activities
Net investment in capital assets:		
Capital assets, net	\$ 4,018,888	\$ 2,515,582
Noncurrent portion of outstanding long-term liabilities	(4,179,922)	(2,452,372)
Net investment in capital assets	<u>\$ (161,034)</u>	<u>\$ 63,210</u>

Restricted assets which have restrictions placed on the use of the assets through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The District has restricted net position as of December 31, 2018 as follows:

	Governmental Activities	Business-type Activities
Restricted net position:		
Emergency reserve (TABOR)	\$ 1,400	\$ -
Total restricted net position	<u>\$ 1,400</u>	<u>\$ -</u>

Unrestricted net position consists of the net amount of assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position. The District utilizes unrestricted net position before using restricted net position. As of December 31, 2018, the District had unrestricted net position of (\$25,794). This deficit is primarily due to the effects of the District's subordinate promissory notes, which remain an obligation of the District. The proceeds were used to acquire capital assets.

8. RELATED PARTY

The Developer of the property which constitutes the District is DCLA-2, LLC. The members of the Board of Directors are employees, owners or are otherwise associated with the Developer and its affiliates and may have conflicts of interest dealing with the District. In addition, Tahoe Land Services certified the capital costs of which \$6,534,470 were accepted by the District on June 7, 2018. CJ Kirst, owner of Tahoe Land Services, became a District Board member on August 22, 2018.

9. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District's developer carried commercial insurance for all risks of loss.

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

10. ECONOMIC DEPENDENCY

The District has not yet established a revenue base sufficient to pay operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding by the Developer.

11. INTERFUND TRANSFERS

The transfer from the general fund to the capital projects fund was for the principal payment on the District's promissory note.

12. TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the *State Constitution*, Article X, Section 20, referred to as the Taxpayer's Bill of Rights (TABOR), which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenues in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes the Water Activity Enterprise Fund qualifies for this provision.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for 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 requires local governments to establish Emergency Reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

On May 2, 2006, a majority of District electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and other revenue of the District for 2006 and any year thereafter, without regard to limitations under TABOR.

The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

13. NONCOMPLIANCE WITH COLORADO REVISED STATUTES

Colorado Revised Statutes require that local governments submit audited financial statements for calendar year-end by July 31, or September 30 if granted an extension, of the following year. The District was not in compliance with this statutory requirement for the year ended December 31, 2018.

FOXHILL METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

14. SUBSEQUENT EVENTS

The District entered into a lease agreement with DCLA-2 LLC on April 26, 2019 to lease approximately 4.44 acres of real property for the purposes of park and recreation, including community farming and ranch operations. The term of the lease expires on April 26, 2020 and will automatically renew for consecutive one year periods beginning each April 1, unless written notice is sent by either party on or before February 1 of such year. The base rent for the first three years of the agreement will be \$12,000 per year. The District will consider the lease renewal during the annual budget process and appropriate necessary funds to continue the lease for each additional on-year term.

SUPPLEMENTAL INFORMATION

Foxhill Metropolitan District No. 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
For the Year Ended December 31, 2018

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original & Final</u>	<u>Actual</u>	
REVENUES			
Total Revenues	\$ -	\$ -	\$ -
EXPENDITURES			
Capital expenses	6,400,000	4,018,888	2,381,112
Capital accounting and administration	50,000	-	50,000
Capital site observations and management	25,000	-	25,000
Contingency	25,000	-	25,000
Total Expenditures	<u>6,500,000</u>	<u>4,018,888</u>	<u>2,481,112</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(6,500,000)</u>	<u>(4,018,888)</u>	<u>2,481,112</u>
OTHER FINANCING SOURCES (USES)			
Developer advance	6,445,000	4,018,888	(2,426,112)
Developer advance reimbursement	-	(4,042)	(4,042)
Transfers from other funds	55,000	4,042	(50,958)
Total other financing sources (uses)	<u>6,500,000</u>	<u>4,018,888</u>	<u>(2,481,112)</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Foxhill Metropolitan District No. 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - NON-GAAP (BUDGETARY BASIS)
WATER ACTIVITY ENTERPRISE FUND
For the Year Ended December 31, 2018

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Developer Advance	\$ -	\$ 2,515,582	\$ 2,515,582	\$ -
Water system PIFs	-	180,000	180,000	-
Water connection fee	-	5,500	5,500	-
Total Revenue	<u>\$ -</u>	<u>\$ 2,701,082</u>	<u>\$ 2,701,082</u>	<u>\$ -</u>
EXPENDITURES				
Capital expenses	-	2,515,582	2,515,582	-
Water operations	-	92,000	9,167	82,833
Meter sets	-	10,000	9,921	79
Total Expenditures	<u>-</u>	<u>2,617,582</u>	<u>2,534,670</u>	<u>82,912</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>-</u>	<u>83,500</u>	<u>166,412</u>	<u>82,912</u>
OTHER FINANCING SOURCES (USES)				
Repayment of developer advance - principal	-	(80,000)	(161,868)	(81,868)
Total other financing sources (uses)	<u>-</u>	<u>(80,000)</u>	<u>(161,868)</u>	<u>(81,868)</u>
NET CHANGE IN FUNDS AVAILABLE	<u>-</u>	<u>3,500</u>	<u>4,544</u>	<u>1,044</u>
FUNDS AVAILABLE - BEGINNING OF YEAR	-	-	-	-
FUNDS AVAILABLE - END OF YEAR	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 4,544</u>	<u>\$ 1,044</u>

Foxhill Metropolitan District No. 1
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
Year Ended December 31, 2018

Revenue (budgetary basis)	\$ 2,701,082
Less:	
Developer advances	(2,515,582)
Total revenue (GAAP basis)	185,500
Expenditures (budgetary basis)	2,696,538
Add:	
Interest expense	98,658
Less:	
Capital outlay	(2,515,582)
Developer reimbursement - principal	(161,868)
Total expenditures (GAAP basis)	117,746
Change in net position per statement of revenues, expenditures and changes in net position	\$ 67,754