

**FOREST LAKES METROPOLITAN
DISTRICT**

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2018 and 2017

**FOREST LAKES METROPOLITAN DISTRICT
TABLE OF CONTENTS
DECEMBER 31, 2018 AND 2017**

	Page
Independent Auditors' Report	
Management Discussion and Analysis	<i>i</i>
Basic Financial Statements:	
Statements of Net Position	1
Statements of Revenues, Expenses and Changes in Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	5
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Net Position, Budget and Actual (Non-GAAP)	17


Hoelting & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Forest Lakes Metropolitan District

We have audited the accompanying financial statements of Forest Lakes Metropolitan District which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forest Lakes Metropolitan District, as of December 31, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Economic Dependency

The District has not yet established a revenue base sufficient to meet its debt service and operational expenses. As discussed in Note 9, the District is dependent upon future growth in the District and restructuring and refinancing of the District's long-term obligations to provide funds for such expenses. Our opinion is not modified with respect to this matter.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the Table of Contents 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, 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. 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise Forest Lakes Metropolitan District's financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Hoelting & Company, Inc.

Colorado Springs, Colorado
June 10, 2019

FOREST LAKES METROPOLITAN DISTRICT Management's Discussion and Analysis

This discussion and analysis (MD&A) of the Forest Lakes Metropolitan District's (District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2018 and 2017. The MD&A should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- By year-end 2018, the development entity for Forest Lakes (Forest Lakes Residential Development LLC) had made significant progress on Forest Lakes Filing #4 and was well into the entitlement process for the amended Preliminary Plan for the Phase 2 development in the western portion of the Forest Lakes property. As required by the Facilities Financing and Acquisition Agreement between Forest Lakes Metropolitan District (FLMD) and the Developer, an independent engineer will evaluate the costs incurred by the Developer for the various components of the Filings #2 and #4 public infrastructure to determine that those costs were reasonable. The Developer will then convey all such developer constructed public infrastructure to FLMD in return for the District's agreement to reimburse the Developer for those reasonable costs, when funds become available to do so. It is currently expected to have those steps completed before year-end 2019.
- Lot sales, principally in Filing #2 during 2018 resulted in the collection of water and wastewater development fees on 60 lots by year-end. During the first 5 months of 2019, development fees on another 33 lots, mainly in Filing #4, were collected by FLMD. The District anticipates home building activity to continue at a somewhat slower pace for the remainder of 2019.
- District operation of the water and wastewater systems is being provided by Donala Water and Sanitation District under contract. Donala personnel continue to identify system refinements to increase the efficiency of operations and have been instrumental in monitoring operational features of the Surface Water Treatment under construction throughout 2018.
- Velocity Constructors was awarded the \$7.7 million contract for the 1.5 mgd Surface Water Treatment Plant on the shores of Bristlecone Reservoir and was given notice to proceed in mid-November 2017. Construction on the Plant proceeded throughout 2018 and final completion of the Plant was reached on June 2, 2019. Start-up operations for the Plant commenced in March of 2019 and the Plant has been providing all the potable water to the Forest Lakes customers since early April. The addition of a surface water supply to the District's water portfolio will greatly enhance the long term water supply reliability.
- During 2018, the District provided delivery of augmentation water to twelve customers on the Rampart Range, Hay Creek and Monument Creek from April through November.
- As a "community water system" FLMD must meet Colorado Department of Public Health and Environment standards for drinking water – including a mandated schedule for water testing and other water system activities and including an annual report to its customers on drinking water quality outcomes. The first such Water Quality Report was completed in June 2018, the second in May 2019 and both are posted to the District website – forestlakesmetrodistrict.com.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Required statements for proprietary funds are: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, and 3) Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting.

The *Statements of Net Position* present information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present information which reflects how the District's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statements of Cash Flows* report the District's cash flows from operating, noncapital financing, and capital and related financing activities.

FINANCIAL SUMMARY AND ANALYSIS

NET POSITION

District assets increased by approximately \$ 6.95 million during 2018 while District liabilities increased by approximately \$ 8.30 million. Thus, the total net position deficit increased by approximately \$ 1.35 million.

	<u>2018</u>	<u>2017</u>
ASSETS		
Current and other assets	\$ 536,451	\$ 1,211,131
Capital assets	<u>33,832,092</u>	<u>26,207,158</u>
Total assets	<u>34,368,543</u>	<u>27,418,289</u>
LIABILITIES		
Long term liabilities outstanding	46,925,935	39,091,445
Other liabilities	<u>965,775</u>	<u>502,550</u>
Total liabilities	<u>47,891,710</u>	<u>39,593,995</u>
NET POSITION		
Net investment in capital assets	10,744,824	9,164,959
Unrestricted	<u>(24,267,991)</u>	<u>(21,340,665)</u>
Total net position	<u>\$ (13,523,167)</u>	<u>\$ (12,175,706)</u>

The District's assets consist largely of capital assets, which include the dams and reservoir sites acquired during 2004, utility tracts in Forest Lakes Filing #1, significant water rights, the District's ownership interest in a jointly owned wastewater treatment plant and the 2010 expansion of that plant, public roads, Dillon well, stormwater drainage systems, water transmission, distribution and treatment systems, wastewater collection systems and a very sizeable amount of construction work in progress as work on the Surface Water Treatment Plant (SWTP) continued. Starting in 2016, as the District began collecting water and wastewater development fees, its bank account balance increased materially through year-end 2017 but then declined materially in 2018 as the District partially funded construction of the SWTP. The \$6.95 million increase in total assets is attributable to one principal impact: the very significant expenditures on the engineering, design and construction of the SWTP. The District's long-term liabilities continued to increase to reflect accrued interest on the Water Acquisition Agreement and on developer advances to the District and, most importantly, due to the \$6.05 million liability booked to the developer for the cash advances for construction of the SWTP.

The District's net position is comprised of a significant positive level of capital assets, less related debt used to acquire those assets. Net investment in capital assets increased \$1.580 million during 2018 due largely to the District's cash funding of a portion of the SWTP construction and construction observation and engineering costs. Unrestricted net position has shown a large negative balance due to the significant amount of accumulated interest on the outstanding 1987B BANs and on the various obligations to the developer that were incurred in the early years of the District before the initial developer went into bankruptcy and the lending financial institutions failed. The \$2.927 million increase in the negative unrestricted net position is a combined impact of the increase in accrued interest owed to the developer and the retainage due to the SWTP construction contractor.

CHANGES IN NET POSITION

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE		
Contract services	\$ 347,042	\$ 283,451
Total operating revenue	<u>347,042</u>	<u>283,451</u>
OPERATING EXPENSES		
Operating	960,853	661,620
General and administrative	<u>145,232</u>	<u>152,598</u>
Total operating and general and administrative	<u>1,106,085</u>	<u>814,218</u>
Operating income(loss)	<u>(759,043)</u>	<u>(530,767)</u>
NONOPERATING REVENUE (EXPENSES)		
Interest expense	(1,732,279)	(1,074,706)
Contribution to other govern.	<u>-</u>	<u>(5,336,382)</u>
Total non-oper revenue (exp)	<u>(1,732,279)</u>	<u>(6,411,088)</u>
(LOSS) BEFORE CONTRIBUTIONS	(2,491,322)	(6,941,855)
Developer contributions	-	(28,688)
Development fees	<u>1,143,861</u>	<u>1,286,382</u>
Total capital contributions	<u>1,143,861</u>	<u>1,257,694</u>
CHANGE IN NET POSITION	(1,347,461)	(5,684,161)
NET POSITION (DEFICIT) - BEGINNING OF YEAR	<u>(12,175,706)</u>	<u>(6,941,545)</u>
NET POSITION (DEFICIT) - END OF YEAR	<u>\$ (13,523,167)</u>	<u>\$ (12,175,706)</u>

2017

With the continuing lot sales and housing construction throughout 2017 – houses being served increased from 22 at year-end 2016 to 107 at year-end 2017 - operating revenue activity for the District has continued to increase (by \$128,114 for the year). The dollar amounts Forest Lakes Metropolitan District continues to collect for water augmentation services it provides to twelve lake owners on the Rampart Range increased very modestly during 2017. The main sources of revenue from contract services for 2017 include monthly billing to connected homes for both water and wastewater services and revenues collected at the time development fees are paid for the “new tap kit/inspections” fee. Fees from the “new tap kit/inspections” added about \$116,000 to contract service revenue in 2017. Forest Lakes Metropolitan District also levies an administrative charge against the three Pinon Pines Districts for a portion of the costs of the administrative and management services provided by Forest Lakes Metropolitan District to the taxing districts. As the property tax revenue generated by the Pinon Pines Districts increases, the level of this charge will increase until it is fully compensating Forest Lakes Metropolitan District for the services provided on behalf of the Pinon Districts.

Operating expenses during 2017 increased significantly over 2016 levels – by \$166,911 - as FLMD provided water and wastewater services to a growing number of households. Expenses were also incurred for irrigation and maintenance of the parks and roadway landscaping in Filings #1 and #3. There were significant expense increases for water and wastewater operations and maintenance and for maintenance of the park and road landscaping. Administrative and General expenses were basically flat. Interest expense on the developer advances has stabilized given the lack of need for additional advances from the Developer during 2017. With the year-end conveyance to the District of the Developer constructed infrastructure for Filings #1 and #3, interest on developer advances will start to increase once again. A significant amount of the accrued interest on these advances was capitalized in prior years into the various Capital accounts. The level of capitalized interest for 2017 increased moderately over 2016 due to substantial expenditures during 2017 on the surface water treatment plant. Since construction in progress expenditures booked for the Arapahoe Well, landscaping, parks and trails were put into service at year-end, capitalized interest will only be computed for the expenditures on the surface water treatment plant in 2018, unless the plant is put into service before year-end. The amounts of interest capitalized for 2016 and 2017 are \$149,141 and \$164,450 respectively. The loss before capital contributions increased significantly for 2017 because of the dedication of the public roads to El Paso County. That dedication produced a \$5.336 million “contribution to other government” entry.

During 2017, the District recorded cash contributions from development fee payments of \$1,257,694. That level of development fees is very similar to that booked for 2016. As lots sales and building activity continues in 2018, those payments will likely stay at approximately that level. Due to the combined effect of the annual operating and non-operating losses and the \$1.258 million in capital contributions, the deficit in net position has increased from a deficit of \$6.49 million at the end of 2016 to a deficit of \$12.18 million by year end 2017.

2018

With the continuing lot sales and housing construction throughout 2018– houses being served increased from 107 at year-end 2017 to 178 at year-end 2018 - operating revenue activity for the District has continued to increase (by \$63,591 for the year). This increase is a bit understated for 2018 since 2017 operating revenue included almost \$64,000 in one time grant and miscellaneous revenue. The dollar amounts Forest Lakes Metropolitan District continues to collect for water augmentation services it provides to twelve lake owners on the Rampart Range increased very modestly during 2018. The main sources of revenue from contract services for 2018 include monthly billing to connected homes for water, wastewater and landscaping services (which increased almost \$125,000 during 2018) and revenues collected at the time development fees are paid for the “new tap kit/inspections” fee. Fees from the “new tap kit/inspections” for 2018 actually declined by almost \$30,000 from 2017. Forest Lakes Metropolitan District also levies an administrative charge against the three Pinon Pines Districts for a portion of the costs of the administrative and management services provided by Forest Lakes Metropolitan District to the taxing districts. As the property tax revenue generated by the Pinon Pines Districts increases, the level of this charge will increase until it is fully compensating Forest Lakes Metropolitan District for the services provided on behalf of the Pinon Districts. For 2018, this administrative charge revenue increased by over \$18,000.

Operating expenses during 2018 increased significantly over 2017 levels – by almost \$300,000 - as FLMD provided water and wastewater services to a growing number of households. Expenses were also incurred for irrigation and maintenance of the parks and roadway landscaping in Filings #1 and #3. There were significant expense increases for water and wastewater operations and maintenance and for maintenance of the park and road landscaping. Administrative and General expenses were basically flat. Interest expense on the developer advances increased by over

\$657,000 because of the significant Developer liability booked at year-end 2017 for the infrastructure conveyance from the Developer to the District and because of the significant cash advances the Developer has provided during 2018 for funding of the SWTP construction. A significant amount of the accrued interest on these advances was capitalized in prior years into the various Capital accounts. The level of capitalized interest for 2018 increased moderately over 2017 due to substantial expenditures during 2018 on the surface water treatment plant. The amounts of interest capitalized for 2017 and 2018 are \$164,450 and \$280,283 respectively. The loss before capital contributions decreased significantly for 2018 largely because of the 2017 one time dedication of the public roads to El Paso County for \$5.336 million.

During 2018, the District recorded cash contributions from development fee payments of \$1,143,861. That level of development fees is very similar to that booked for 2017. As lots sales and building activity continues at a slower pace in 2019, those payments will decrease somewhat. Due to the combined effect of the annual operating and non-operating losses and the \$1.144 million in capital contributions, the deficit in net position has increased from a deficit of \$12.176 million at the end of 2017 to a deficit of \$13.523 million by year end 2018.

BUDGETARY HIGHLIGHTS

The 2018 Budget was amended to provide for higher capital outlays on the SWTP than originally expected. The District did also make a payment to the Developer in 2018 of \$223,140 as required by the Reconciliation Agreement with the Developer to reduce its Developer Prepaid Tap Liability. Most other budget line items show that actual activity for the year was in line with the amended budget amounts for 2018.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets at December 31, 2018 and 2017 amounted to \$33,832,092 and \$26,207,158 (net of accumulated depreciation), respectively. This investment in capital assets includes both the original and expanded wastewater plant, dams, the water flow measuring device, water rights, land, stormwater drainage systems, Dillon and Arapahoe wells, water transmission, distribution and treatment systems, wastewater collection systems, parks & trails, roadway landscaping, water meters and construction in progress. Analysis of changes in capital assets is as follows:

	<u>2018</u>	<u>2017</u>
Wastewater plant	\$ 4,554,395	\$ 4,554,395
Parks & Trails	1,931,019	1,913,019
Landscaping	565,230	565,230
Water meters	112,929	99,081
Wastewater collection system	2,726,864	2,726,864
Dams	2,451,380	2,451,380
Stormwater drainage systems	2,161,322	2,161,322
Wells	888,344	888,344
Water flow measuring device	9,037	9,037
Water tank	898,287	898,287
Well-head treatment plant	841,430	841,430
Water transmission & distribution lines	3,328,447	3,323,004
Irrigation system	57,559	57,559
Water rights	7,422,598	7,422,598
Land	383,280	383,280
Construction in progress	9,402,097	1,323,622
Accumulated depreciation	<u>(3,902,126)</u>	<u>(3,411,294)</u>
Total capital assets	<u>\$ 33,832,092</u>	<u>\$ 26,207,158</u>

Additional information on the District's capital assets can be found in the notes to financial statements on pages 9 and 10.

During 2018, the major capital outlays by the District were related to the construction and construction observation and engineering services for the SWTP.

Outstanding Debt

At December 31, 2018 and 2017, the District had \$46,925,935 and \$39,091,445 respectively, in debt outstanding. The detail of outstanding debt is as follows:

	<u>2018</u>	<u>2017</u>
Funding agreements	\$ 24,218,602	\$ 18,173,533
Water rights liability	5,155,250	5,155,250
Pre-paid tap fee liability	1,563,435	1,786,575
Accrued Interest	<u>15,988,648</u>	<u>13,976,087</u>
Total outstanding debt	<u>\$ 46,925,935</u>	<u>\$ 39,091,445</u>

Additional information on the District's long-term debt can be found in the notes to financial statements on pages 11 through 12.

In 2008, the First Amendment to the Water Acquisition Agreement of 2006 reduced the District's obligation under that agreement by \$1.785 million as a result of the transfer of 713.9 acre feet of District owned groundwater rights to the developer. The 1987B BAN principal and accumulated interest were both eliminated during 2016 through use of the net proceeds of the 2016 bond issue by PPMD #1 and the simultaneous forgiveness by the Developer of the remaining Developer held BAN obligations. Through 2018, the District continued to accrue interest annually on the outstanding Developer Advance obligation. In both 2017 and 2018, the level of the prepaid tap fee liability was reduced based on a payment to Forest Lakes LLC pursuant to its Reconciliation Agreement with Forest Lakes LLC. .

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

For 2019, the District has budgeted for the completion of the surface water treatment plant which will mostly be funded by developer advances. If conveyance to FLMD of the public infrastructure constructed by the developer for Filings #2 and #4 were to occur, the 2019 will be appropriately amended. The 2019 Budget assumes that 203 houses, on average, will be taking water/wastewater and landscaping services during 2019 and that 51 building permits will be pulled during the year.

REQUESTS FOR INFORMATION

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or request for additional financial information should be addressed to: Ann Nichols, District Manager, 2 North Cascade Avenue, Suite 1280, Colorado Springs, CO 80903.

BASIC FINANCIAL STATEMENTS

FOREST LAKES METROPOLITAN DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 368,663	\$ 1,109,751
Receivables	41,593	8,416
Inventory	113,309	81,054
Prepaid expense	<u>12,886</u>	<u>11,910</u>
Total current assets	<u>536,451</u>	<u>1,211,131</u>
Capital assets		
Capital assets not being depreciated	17,207,975	9,129,500
Capital assets being depreciated, net	<u>16,624,117</u>	<u>17,077,658</u>
Total capital assets	<u>33,832,092</u>	<u>26,207,158</u>
Total assets	<u>34,368,543</u>	<u>27,418,289</u>
LIABILITIES		
Current liabilities		
Accounts payable	<u>965,775</u>	<u>502,550</u>
Total current liabilities	<u>965,775</u>	<u>502,550</u>
Long-term liabilities		
Accrued interest	15,988,648	13,976,087
Funding agreements	24,218,602	18,173,533
Water rights liability	5,155,250	5,155,250
Prepaid tap fee liability	<u>1,563,435</u>	<u>1,786,575</u>
Total long-term liabilities	<u>46,925,935</u>	<u>39,091,445</u>
Total liabilities	<u>47,891,710</u>	<u>39,593,995</u>
NET POSITION		
Net investment in capital assets	10,744,824	9,164,959
Unrestricted	<u>(24,267,991)</u>	<u>(21,340,665)</u>
Total net position	<u><u>\$ (13,523,167)</u></u>	<u><u>\$ (12,175,706)</u></u>

The accompanying notes are an integral part of these financial statements.

FOREST LAKES METROPOLITAN DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Water contract services	\$ 236,020	\$ 185,157
Other contract services	<u>111,022</u>	<u>98,294</u>
Total operating revenues	<u>347,042</u>	<u>283,451</u>
Operating expenses:		
Facility maintenance & operations	470,021	348,406
Depreciation	490,832	313,214
District management	63,379	65,443
Insurance	11,910	11,354
Legal	49,964	57,669
Accounting	13,975	13,550
Consulting	3,392	2,120
Other	<u>2,612</u>	<u>2,462</u>
Total operating expenses	<u>1,106,085</u>	<u>814,218</u>
Operating income (loss)	<u>(759,043)</u>	<u>(530,767)</u>
Nonoperating revenues (expenses):		
Interest expense	(1,732,279)	(1,074,706)
Contribution to other government	<u>-</u>	<u>(5,336,382)</u>
Total non-operating revenue (expenses)	<u>(1,732,279)</u>	<u>(6,411,088)</u>
Income before capital contributions	(2,491,322)	(6,941,855)
Capital contributions		
Developer contributions	-	(28,688)
Development fees	<u>1,143,861</u>	<u>1,286,382</u>
Total capital contributions	<u>1,143,861</u>	<u>1,257,694</u>
Change in net position	(1,347,461)	(5,684,161)
Net position (deficit) - beginning	<u>(12,175,706)</u>	<u>(6,491,545)</u>
Net position (deficit) - ending	<u><u>\$ (13,523,167)</u></u>	<u><u>\$ (12,175,706)</u></u>

The accompanying notes are an integral part of these financial statements.

**FOREST LAKES METROPOLITAN DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Proceeds from water service contracts	\$ 202,843	\$ 183,197
Proceeds from other contracts	111,022	98,294
Cash paid to vendors	(743,567)	(444,955)
Net cash used by operating activities	(429,702)	(163,464)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from funding agreement	-	4,611,643
Net cash provided by non-capital financing activities	-	4,611,643
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from development fees	1,143,861	1,286,381
Proceeds from funding agreement	6,045,069	3,176,854
Proceeds to developer	-	(28,688)
Payment of prepaid tap liability	(223,140)	(256,615)
Payment to other government	-	(5,336,382)
Acquisition and construction of capital assets	(7,277,176)	(3,176,854)
Net cash provided (used) by capital and related financing activities	(311,386)	(4,335,304)
Increase (decrease) in cash and cash equivalents	(741,088)	112,875
Cash and cash equivalents, beginning of year	1,109,751	996,876
Cash and cash equivalents, end of year	\$ 368,663	\$ 1,109,751

The accompanying notes are an integral part of these financial statements.

**FOREST LAKES METROPOLITAN DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating loss	\$ (759,043)	\$ (530,767)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	490,832	313,214
Change in assets and liabilities:		
(Increase) decrease in assets:		
Other receivables	(33,177)	(1,960)
Inventory	(32,256)	(66,152)
Prepaid expense	(976)	(556)
Increase (decrease) in liabilities:		
Accounts payable related to operations	<u>(95,082)</u>	<u>122,757</u>
Total adjustments	<u>329,341</u>	<u>367,303</u>
Net cash used by operating activities	<u><u>\$ (429,702)</u></u>	<u><u>\$ (163,464)</u></u>
Schedule of non-cash investing, capital and financing activities:		
Capitalized interest	\$ 280,283	\$ 164,449

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to local governments and promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies used in the preparation of these financial statements follows.

A. REPORTING ENTITY

Forest Lakes Metropolitan District (the District) is a quasi-municipal corporation, governed pursuant to the provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado. A portion of the District has been annexed into the Town of Monument. The District was established to provide water and sanitary sewer service, park and recreational facilities, safety protection, street improvements, transportation, and mosquito control services to the properties with the District boundaries.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The District has no component units for which either discrete or blended presentation is required.

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the non-fiduciary activities of the District.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the District rely significantly upon service charges.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION

Cash and cash equivalents

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

Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

Prepaid expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2018 and 2017, are recorded as prepaid items.

Capital assets

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 their estimated fair market value on the date received.

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 depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of the wastewater plant, dams, equipment, and wells is computed using the straight-line method over the estimated useful lives as follows:

Wastewater plant	40 years
Dams	30 - 100 years
Water flow measuring device	33 1/3 years
Storm-water drainage system	50 years
Wells	50 years
Water flow measuring device	33 1/3 years
Wastewater collection system	25 – 100 years
Water distribution system	100 years
Water tank	33 1/3 years
Well-head treatment plant	25 years

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net position.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)

Capital assets (continued)

The cost of water rights includes acquisition, legal and engineering costs related to the development and augmentation of these rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of these rights, are expensed.

Capitalized interest

Interest incurred during construction is reflected in the capitalized value of the asset constructed, net of investment earnings on invested bond proceeds during the same period. Capitalized interest for the years ended December 31, 2018 and 2017 was \$280,283 and \$164,449, respectively.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 addition to liabilities, the statement of financial 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 an inflow of resources (revenue) until that time.

Net position flow assumption

The District may 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 financial statements, a flow assumption must be made about the order in which the 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.

E. REVENUES AND EXPENSES

Operating and non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are water and other contract services. Operating expenses include all expenses incurred to provide contract services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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.

G. RECLASSIFICATIONS

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation with notification. The appropriation can only be modified upon completion of notification and publication requirements.

NOTE 3 - DEPOSITS AND INVESTMENTS

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 regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

As of December 31, 2018 and 2017, the carrying amounts of the District's deposits were \$368,663 and \$1,109,751, respectively and the bank balances were \$707,673 and \$1,131,658, respectively. In 2018, \$250,000 of bank balances was covered by FDIC insurance and the remaining balance of \$457,673 fell under the provisions of the Colorado Public Deposit Protection Acts which are collateralized in single institution pools. In 2017, \$250,000 of bank balances was covered by FDIC insurance and the remaining balance of \$881,658 fell under the provisions of the Colorado Public Deposit Protection Acts.

INVESTMENTS

The District is authorized by Colorado Statutes to invest in the following:

- Bonds and other interest-bearing obligations of the United States government.
- Bonds and other interest-bearing obligations which are guaranteed by the United States government.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

INVESTMENTS (CONTINUED)

- * Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- * Notes or bonds issued to the “National Housing Act”.
- * Repurchase agreements.
- * Local government investment pools.

NOTE 4 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 7,422,598	\$ -	\$ -	\$ 7,422,598
Land	383,280	-	-	383,280
Construction in progress	<u>1,323,622</u>	<u>8,096,475</u>	<u>(18,000)</u>	<u>9,402,097</u>
Total capital assets, not being depreciated	<u>9,129,500</u>	<u>8,096,475</u>	<u>(18,000)</u>	<u>17,207,975</u>
Capital assets, being depreciated:				
Wastewater plant	4,554,395	-	-	4,554,395
Parks & Trails	1,913,019	18,000	-	1,931,019
Landscaping	565,230	-	-	565,230
Service water meters	99,081	13,848	-	112,929
Dams	2,451,380	-	-	2,451,380
Stormwater drainage system	2,161,322	-	-	2,161,322
Wells	888,344	-	-	888,344
Water flow measuring device	9,037	-	-	9,037
Wastewater collection system	2,726,864	-	-	2,726,864
Water distribution system	3,323,004	5,443	-	3,328,447
Water tank	898,287	-	-	898,287
Well-head treatment plant	841,430	-	-	841,430
Irrigation System	<u>57,559</u>	<u>-</u>	<u>-</u>	<u>57,559</u>
Total capital assets, being depreciated	20,488,952	37,291	-	20,526,243
Less accumulated depreciation	<u>(3,411,294)</u>	<u>(490,832)</u>	<u>-</u>	<u>(3,902,126)</u>
Total capital assets, being depreciated, net	<u>17,077,658</u>	<u>(453,541)</u>	<u>-</u>	<u>16,624,117</u>
Total capital assets, net	<u>\$ 26,207,158</u>	<u>\$ 7,642,934</u>	<u>\$ (18,000)</u>	<u>\$ 33,832,092</u>

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 7,422,598	\$ -	\$ -	\$ 7,422,598
Land	383,280	-	-	383,280
Construction in progress	<u>3,273,717</u>	<u>6,293,719</u>	<u>(8,243,814)</u>	<u>1,323,622</u>
Total capital assets, not being depreciated	<u>11,079,595</u>	<u>6,293,719</u>	<u>(8,243,814)</u>	<u>9,129,500</u>
Capital assets, being depreciated:				
Wastewater plant	4,591,415	-	(37,020)	4,554,395
Parks & Trails	-	1,913,019	-	1,913,019
Landscaping	-	565,230	-	565,230
Service water meters	-	99,081	-	99,081
Dams	2,451,380	-	-	2,451,380
Stormwater drainage system	945,497	1,215,825	-	2,161,322
Wells	459,161	429,183	-	888,344
Water flow measuring device	9,037	-	-	9,037
Wastewater collection system	2,102,523	624,341	-	2,726,864
Water distribution system	2,840,588	482,416	-	3,323,004
Water tank	898,287	-	-	898,287
Well-head treatment plant	789,480	51,950	-	841,430
Irrigation System	<u>-</u>	<u>57,559</u>	<u>-</u>	<u>57,559</u>
Total capital assets, being depreciated	15,087,368	5,438,604	(37,020)	20,488,952
Less accumulated depreciation	<u>(3,098,080)</u>	<u>(313,214)</u>	<u>-</u>	<u>(3,411,294)</u>
Total capital assets, being depreciated, net	<u>11,989,288</u>	<u>5,125,390</u>	<u>(37,020)</u>	<u>17,077,658</u>
Total capital assets, net	<u>\$ 23,068,883</u>	<u>\$ 11,419,109</u>	<u>\$ (8,280,834)</u>	<u>\$ 26,207,158</u>

During 2017, \$5,336,382 in capital assets related to the public roads were completed and transferred to El Paso County as required when the filings were platted.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5 – LONG TERM OBLIGATIONS

Funding agreements

The District has entered into Funding Agreements with the Developer (see Note 8) to advance funds to the District for capital and operations and maintenance expenses to enable the District to provide services. The District will repay the Developer to the extent that the funds are available or, at the discretion of the District, from available bond proceeds. Simple interest accrues from the date each developer advance is received at 8% per annum.

Prepaid taps

In the Funding Reconciliation Agreement dated September 4, 2003 and effective December 31, 2002, the District confirmed an obligation to entitle the Developer (see Note 8) to ownership of 216 combined water and sewer taps worth \$2,816,640 based on the District's then current rate of \$13,040 per combined water and sewer tap fee. By acceptance of the tap fee obligation, the Developer has agreed that the prepaid taps will be the only obligations carried over from the previous funding agreements (as more fully described in the Fund Reconciliation Agreement dated September 4, 2003) and that the Developer shall not seek any reimbursement or credit from the District with respect to the funding agreements other than for prepaid tap fees. The prepaid tap fee liability represents the accumulated developer advances and the acquisition of water rights at the actual or estimated values as of the date of the transactions. During 2018, building activity allowed for the liquidation of \$223,140 in tap fee liability. 12 taps were liquidated leaving a remaining balance of 173 taps.

Water rights

Under an Assignment and Assumption Agreement dated October 28, 2003, the Developer assigned certain water rights to the District. Subsequently, it was determined that it was in the best interest of the District to reimburse the Developer for that portion of the water rights already assigned to the District by the Developer. Accordingly, on August 1, 2006, the District entered into a Water Acquisition Agreement with the Developer totaling \$6,940,000 for reimbursement of these water rights and for the transfer of water rights not previously assigned to the District. Simple interest accrues from the date of the agreement at 8% per annum

Under the First Amendment to Water Acquisition Agreement dated December 31, 2008, the District transferred certain water rights originally acquired by the District in the 1980's, back to the Developer. The water rights transferred reduced the amount owed for the reimbursement of the original agreement by \$1,784,750, based on the appraised value of the water rights at the time of transfer. Simple interest will continue to accrue on the new principal balance of \$5,155,250 at 8% per annum.

Unissued debt

On November 4, 2003, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$51,000,000 at an interest rate not to exceed 18% per annum. The full \$51,000,000 remains unauthorized and unissued as of December 31, 2018.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5 – LONG TERM OBLIGATIONS (CONTINUED)

Changes in Long-term Debt

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Funding agreements	\$ 18,173,533	\$ 6,045,069	\$ -	\$ 24,218,602	\$ -
Prepaid tap fee liability	1,786,575	-	223,140	1,563,435	-
Water rights liability	5,155,250	-	-	5,155,250	-
Accrued interest	<u>13,976,087</u>	<u>2,012,561</u>	<u>-</u>	<u>15,988,648</u>	<u>-</u>
Total loans and accrued interest payable	<u>\$ 39,091,445</u>	<u>\$ 8,057,630</u>	<u>\$ 223,140</u>	<u>\$ 46,925,935</u>	<u>\$ -</u>

NOTE 6 – NET POSITION

Net position is reported in three separate categories—net investment in capital assets, net position-restricted, and net position-unrestricted.

Net investment in capital assets consists of capital assets net of accumulated depreciation and capital-related deferred outflows of resources; reduced by borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2018 and 2017, net investment in capital assets was as follows:

	<u>2018</u>	<u>2017</u>
Net Investment in Capital Assets:		
Capital assets, net of accumulated depreciation	\$ 33,832,092	\$ 26,207,158
Estimated principal portion of long-term obligations	<u>(23,087,268)</u>	<u>(17,042,199)</u>
Total Net Investment in Capital Assets	<u>\$ 10,744,824</u>	<u>\$ 9,164,959</u>

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings).

Any portion of net position not already classified as either net investment in capital assets or net position-restricted, is automatically classified as net position-unrestricted.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 7 – 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 is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2018. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and worker's compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 8 - RELATED PARTIES

In 2015, the developer entities (Developers) associated with the District were modified to add an additional entity called Forest Lakes Residential Development LLC. All current board members are employees of one of the partners of that LLC.

Under Funding Agreements the District had received advances from the Developers as of December 31, 2018 and 2017 totaling \$24,218,602 and \$18,173,533, respectively. Accrued interest on the Funding Agreements as of December 31, 2018 and 2017 totaled \$10,536,848 and \$8,936,707, respectively (see Note 5).

In the Funding Reconciliation Agreement dated September 4, 2003 and effective December 31, 2002, the District confirmed an obligation to entitle the Developers to ownership of 216 combined water and sewer taps (see Note 5).

Under the August 1, 2006 Water Acquisition Agreement, the District agreed to reimburse the Developers for water rights valued at \$6,940,000. The reimbursement was reduced by \$1,784,750 under an amendment to the original agreement. Accrued interest on this obligation as of December 31, 2018 and 2017 totaled \$5,451,800 and \$5,039,380, respectively (See Note 5).

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of December 31, 2018 and 2017, the District had unexpended construction related contract commitments of approximately \$67,594 and \$7,606,093, respectively.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Economic Dependency

The District has not yet established a revenue base sufficient to meet its operational expenses and is dependent upon future growth in the District and advances from the Developer.

Active development of the various properties within the District began in 2015 and continued throughout 2018. The District's ability to generate cash from tap fees and service fees improved in 2018.

Management is developing plans to increase revenues and lower debt service requirements. The District continues to be dependent on the Developer for funding operational and capital expenses.

NOTE 10 – INTERGOVERNMENTAL AGREEMENTS

Intergovernmental agreement with Triview Metropolitan District

On March 28, 2002, the District entered into an agreement with Triview Metropolitan District (Triview) to jointly design, construct, operate and own the Monument Creek Interceptor (Interceptor). The costs of design and construction of the project are paid equally by Triview and the District. In accordance with the agreements, the District has 37% ownership and Triview has 63% ownership in the Interceptor. Initially, Triview will operate and manage the Interceptor via a management contract with Donala Water & Sanitation District (Donala). The costs of such management and operation of the interceptor will be paid on a quarterly basis in direct proportion to the use of the wastewater or re-use lines, based on actual flows.

Intergovernmental agreement with Triview Metropolitan District and Donala Water and Sanitation District

The District entered into an agreement dated November 11, 1999, subsequently amended on October 25, 2001, with Triview and Donala to define ownership rights in the wastewater treatment plant. Prior to these agreements, the District owned approximately 60% and Triview owned approximately 40% of the treatment facility under an agreement dated August 19, 1986. Under the amended agreement the District and Triview transferred part ownership to Donala.

In 2009 the Districts completed an expansion of the plant to 1.75 MGD. Under the terms of the above agreements, the three Districts reallocated ownership. The current ownership is 44.0% owned by Triview, 17.1% by Forest Lakes, and 38.9% by Donala. The plant is currently being operated by Donala and all parties are responsible for their respective share of operations and maintenance costs, based on the relative share of actual flows.

In addition, in accordance with the November 11, 1999 agreement, an ownership interest in a 24" interceptor was transferred to the District. As a result of the transfer, the interceptor is owned 25% by the District, 50% by Triview, and 25% by Donala.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 10 – INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Town of Monument Intergovernmental Agreements

On January 9, 1989, the District and the Town of Monument agreed to certain responsibilities regarding the ownership and operations of facilities the District is empowered to construct and operate within the Town of Monument and the allocation of certain sales tax revenues to the District. On July 18, 2005, the District and the Town of Monument amended the original agreement to allow for the formation of a Public Improvement Corporation and the assessment of a Public Improvement Fee, which will replace the sales tax revenues allocated to the District.

On August 15, 2007, the District and the Town entered into an easement agreement, for the construction and use of a water tank storage unit. This agreement allows for the construction of a 1.5MG water tank, with 1MG capacity funded by the District and .5MG capacity funded by the Town. The Town's share of the construction costs are in exchange for use of the additional capacity, and the District retains ownership of the entire water tank. In accordance with the agreement, the Town shall pay its share of the construction costs to the District periodically as the District receives invoices for costs associated with the water tank.

Intergovernmental Agreement with Pinon Pines Metropolitan District Nos. 1, 2 and 3

In order to fulfill the requirements of the service plan, the District entered into a Facilities Funding, Construction, and Operations Agreements with the Pinon Pines Metropolitan District Nos. 1, 2, and 3 (the Pinon District), effective July 19, 2004. This agreement shall remain in full force and effect until all of the terms and conditions of the agreement have been performed in their entirety and as long as any bonds or other obligations are outstanding. On October 6, 2016 the District entered into an intergovernmental agreement with the Pinon District pertaining to the issuance of Series 2016 Bonds by Pinon Pines Metropolitan District No. 1.

The District will own, operate, maintain, finance, and construct facilities benefiting all of the districts, and the Pinon Districts will contribute to the costs of construction, operation, and maintenance of such facilities.

The District will have little or no assessed valuation within its boundaries from which general obligations could be paid, and therefore may issue revenue bonds. The Pinon Districts will either issue general obligation bonds at various points in time and use such proceeds to pay their obligations to the District, refinance previously issued revenue bonds of the District, or pledge their ad valorem tax revenues to the repayment of revenue bonds issued by the District.

The service plans approve and voters within the Pinon Districts have authorized \$354,900,000 of debt. \$8,330,000 in General Obligation Limited Tax Bonds were issued in October 2016. The bonds were used to repay 1987B Bond Anticipation Notes.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 10 – INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Intergovernmental agreement with Donala Water and Sanitation District

On March 7, 2016, the District entered into an agreement with Donala Water and Sanitation District to receive water and wastewater operating services, as well as related administration services.

NOTE 11 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the *State Constitution*, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

On November 4, 2003, a majority of the District's electors authorized the District to collect, retain, and spend all fees, grants and other revenues, other than ad valorem taxes, without any limitations imposed under TABOR.

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

SUPPLEMENTAL INFORMATION

FOREST LAKES METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2018

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES			
Beginning fund balance	\$ 708,581	\$ 708,581	\$ -
Advances from funding agreements	6,045,069	8,000,000	(1,954,931)
Contract services for O&M	347,042	336,287	10,755
Interest income	-	25	(25)
Capital contributions	1,143,861	3,318,016	(2,174,155)
	8,244,553	12,362,909	(4,118,356)
TOTAL REVENUES			
EXPENDITURES			
District management	63,379	68,347	4,968
Facility maintenance & operations	470,021	391,604	(78,417)
Insurance	11,910	13,000	1,090
Legal	49,964	100,000	50,036
Accounting and auditing	13,975	15,000	1,025
Consulting	3,392	3,400	8
Other	2,612	2,500	(112)
Capital outlay	7,835,484	9,065,000	1,229,516
Payment of prepaid tap liability	223,140	260,330	37,190
Interest expense	-	2,016,366	2,016,366
Reserves	-	2,466	2,466
	8,673,877	11,938,013	3,264,136
TOTAL EXPENDITURES			
EXCESS OF EXPENDITURES OVER REVENUES	(429,324)	\$ 424,896	\$ (854,220)
Less:			
Advances from funding agreements	(6,045,069)		
Depreciation	(490,832)		
Accrued interest	(1,732,279)		
Beginning fund balance	(708,581)		
Add:			
Capital outlay	7,835,484		
Payment of prepaid tap liability	223,140		
	\$ (1,347,461)		
CHANGE IN NET POSITION			

See the accompanying independent auditors' report.

FOREST LAKES METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2018

Ending fund balance is calculated as follows:

Current assets	\$ 536,451
Current liabilities	<u>(965,775)</u>
	<u><u>\$ (429,324)</u></u>

See the accompanying independent auditors' report.