



**WOODMEN HILLS METROPOLITAN DISTRICT**

**Management's Discussion and Analysis,**

**Financial Statements,**

**And Supplemental Information**

**For the Years Ended December 31, 2018 and 2017**

**And**

**Independent Auditors' Report**

# WOODMEN HILLS METROPOLITAN DISTRICT

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Woodmen Hills Metropolitan District

We have audited the accompanying financial statements of Woodmen Hills Metropolitan District (the District) as of and for the years ended December 31, 2018 and 2017, 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.

### **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 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 opinion.

### **Opinion**

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

### **Report on Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.

### **Report on Other Supplemental Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental schedule as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedule as listed in the table of contents 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. Such 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.

*Stockman Kast Ryan + Co. LLP*

June 4, 2019

# WOODMEN HILLS METROPOLITAN DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of the District's annual financial report presents the highlights of the District's financial activities and financial position. The analysis focuses on significant financial issues and major financial activity and the resulting changes in financial position.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Supplemental Information. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

### REQUIRED FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets, deferred outflows and liabilities, with the difference between these balances reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as an underlying event giving rise to the change occurs, regardless of the time of related cash flows. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District uses an Enterprise Fund to account for its water and wastewater treatment operations. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 to 25 of this report.

### FINANCIAL POSITION AND RESULTS FROM OPERATIONS

As of the current fiscal year, as well as in the previous two fiscal years, the District is able to report a positive balance in its net position:

	2018	2017	2016
ASSETS			
Current assets	\$ 14,421,357	\$ 12,905,032	\$ 11,595,434
Capital assets	57,349,405	48,434,912	47,539,841
Non-current assets	<u>1,962,584</u>	<u>10,923,041</u>	<u>12,965,618</u>
Total assets	<u>73,733,346</u>	<u>72,262,985</u>	<u>72,100,893</u>
DEFERRED OUTFLOWS	<u>377,007</u>	<u>436,056</u>	<u>490,562</u>

	2018	2017	2016
<b>LIABILITIES</b>			
Current liabilities	1,992,712	1,469,418	1,458,692
Capital lease payables, long-term	17,625,000	18,120,000	18,605,000
Bond payables, long-term	14,330,000	14,855,000	15,365,000
Unearned revenues	213,000	213,000	213,000
Other liabilities, long-term			42,500
Total liabilities	<u>34,160,712</u>	<u>34,657,418</u>	<u>35,684,192</u>
<b>NET POSITION</b>			
Net investment in capital assets	24,936,677	24,260,056	24,262,914
Restricted	301,904	9,440,128	11,326,563
Unrestricted	<u>14,711,060</u>	<u>4,341,439</u>	<u>1,317,786</u>
Total net position	<u>\$ 39,949,641</u>	<u>\$ 38,041,623</u>	<u>\$ 36,907,263</u>

The District's current assets increased by \$1,516,325 due to an increase in cash and cash equivalents available for current operations.

The District's total capital assets increased by \$8,914,493 as of December 31, 2018 largely due to new purchases during 2018 and improvements to the Wastewater Treatment Plant. The District purchased capital assets in the amount of \$10,836,505 to include land, buildings, improvements, machinery and equipment. The District did not receive any capital contributions in 2018.

The District's non-current assets decreased by \$8,960,457 due to restricted monies spent on improvements to the Wastewater Treatment Plant.

Current liabilities increased by \$523,294 due to timing of payments.

As noted, net position may, over time serve as a useful indicator of the District's financial position. Assets and deferred outflows exceeded liabilities by \$39,949,641 at the close of the most recent fiscal year.

#### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating and Non-Operating Revenue and Expenses were as follows:

	2018	2017	2016
<b>OPERATING REVENUE</b>			
Water and wastewater service fees	\$ 5,373,043	\$ 5,029,966	\$ 4,825,668
Park and recreation service fees	<u>1,787,183</u>	<u>1,700,346</u>	<u>1,600,698</u>
Total operating fees	7,160,226	6,730,312	6,426,366
Other fees	<u>984,351</u>	<u>799,088</u>	<u>989,209</u>
Total operating revenue	8,144,577	7,529,400	7,415,575
<b>OPERATING EXPENSES</b>	<u>5,887,935</u>	<u>6,010,122</u>	<u>6,222,418</u>
<b>OPERATING INCOME</b>	2,256,642	1,519,278	1,193,157

	2018	2017	2016
NON-OPERATING EXPENSES	<u>(348,624)</u>	<u>(384,918)</u>	<u>(1,070,008)</u>
Excess before special items	1,908,018	1,134,360	123,149
Forgiveness of bond and lease interest	<u>                    </u>	<u>                    </u>	<u>4,201,171</u>
Change in net position	1,908,018	1,134,360	4,324,320
NET POSITION, Beginning of year	<u>38,041,623</u>	<u>36,907,263</u>	<u>32,582,943</u>
NET POSITION, End of year	<u>\$ 39,949,641</u>	<u>\$ 38,041,623</u>	<u>\$ 36,907,263</u>

Operating revenue increased by \$615,177 in 2018 due in part due to an increase in water usage and water usage rates.

There was operating income of \$2,256,642 in 2018. A large part of the operating income in the current year was due to the increase in operating rates and water and wastewater usage.

There were no contributions received by the District in 2018.

#### ADDITIONAL FINANCIAL INFORMATION

The District's upgrades to the RWRF to meet current EPA standards and regulations are complete as of January 2019. See Note 10 to the financial statements which more fully discusses this matter.

Falcon Vista Exfiltration Gallery is complete and in operation.

In late 2015/early 2016 management and the district engineer developed the 2016 Financial Plan. The plan identifies non-discretionary water and sewer improvements. Management believes that the District's cash reserves are adequate to execute the plan.

On March 29, 2016, the District refinanced its existing debt. As part of the refinancing the District was required to commission a rate study and a market study.

The District is currently meeting the recommendations defined in the rate study, but the District will not meet the revenue projections contained in the market study.

Major areas of new development that the District anticipated for tap fees sales.

- Bent Grass Metro District (Woodmen Hills)
- Falcon Highlands Metropolitan District
- Paint Brush Hills Metropolitan District
- Falcon Market Place
- Rio Estates
- State Bank Land
- Eastonville and Judge Orr Property
- Falcon Fields

Bent Grass Metro District – 646 potential home sites with a projected revenue of approximately \$8,500,000 in tap fees plus user fee revenue. The developer has suspended the project after completion of the first 104 lots which is \$1,357,200 of this amount. The IGA is being amended to allow for payment of \$1,300,000 to the District in lieu of drilling wells.

Courtyards West – Development has 12 lots left out of the 150.

Falcon Highlands Metropolitan District – 350 lots with sewer tap fee sales projected at \$1,925,000. Falcon Highlands Metro District has not solved their water supply issue and at the present time the water supply is inadequate to continue development.

Paint Brush Hills Metropolitan District – 473 home sites with projected tap fee sales of \$946,000 plus user fee revenue. In 2016 the District provided commitment letters for 247 taps. The Paint Brush area has the potential of selling 150 taps in 2019. The District receives only a sewer tap fee of \$2,000 dollars for each tap from this area.

4 Way Metropolitan District – 4 Way was to subsidize approximately \$2,000,000 in construction revenue for the Wastewater Treatment Facility upgrade. 4 Way management has indicated that the plan for completing their necessary projects is behind schedule. This raises a concern that 4 Way will not contribute the \$2,000,000 subsidy for the Wastewater Treatment Facility upgrade.

Falcon Market Place brings a big box retail plus 10 commercial lots.

Rio Estates has proposed a development for 82 single family units and a big box retail location.

State Bank Land and Eastonville/Judge Orr property combined is about 75 acres for residential or commercial development.

Falcon Fields inclusion of 54.9 acres into Woodmen Hills Metropolitan District has been finalized. Projected SFE's are 233 with 104 being commercial.

With management's concerns with the changes listed above, there are some trepidations about rising construction costs in the existing economy. However, management believes the District has adequate reserves and revenues to execute the plan and successfully operate the maintenance budget.

This financial report is designed to provide an overview of the Woodmen Hills Metropolitan District's finances for all interested parties. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Accounting Department, 8046 Eastonville Road, Falcon, Colorado 80831, (719) 495-2500.

# WOODMEN HILLS METROPOLITAN DISTRICT

## STATEMENTS OF NET POSITION DECEMBER 31, 2018 AND 2017

	2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 13,292,317	\$ 11,803,490
Accounts receivable	1,047,455	1,101,542
Prepaid expenses	81,585	
Total current assets	<u>14,421,357</u>	<u>12,905,032</u>
<b>NON-CURRENT ASSETS</b>		
Cash and cash equivalents - restricted	1,962,584	10,923,041
Capital assets:		
Non-depreciable	18,136,417	8,028,682
Depreciable, net	39,212,988	40,406,230
Total non-current assets	<u>59,311,989</u>	<u>59,357,953</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on refunding debt	377,007	436,056
<b>TOTAL</b>	<u>\$ 74,110,353</u>	<u>\$ 72,699,041</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 892,642	\$ 350,476
Interest payable	75,870	77,342
Capital leases payable, current portion	495,000	485,000
Bonds payable, current portion	525,000	510,000
Customer deposits	4,200	4,100
Other liabilities		42,500
Total current liabilities	<u>1,992,712</u>	<u>1,469,418</u>
<b>LONG-TERM LIABILITIES</b>		
Capital leases payable, long-term portion	17,625,000	18,120,000
Bonds payable, long-term portion	14,330,000	14,855,000
Unearned revenue	213,000	213,000
Total long-term liabilities	<u>32,168,000</u>	<u>33,188,000</u>
Total liabilities	<u>34,160,712</u>	<u>34,657,418</u>
<b>NET POSITION</b>		
Net investment in capital assets	24,936,677	24,260,056
Restricted	301,904	9,440,128
Unrestricted net assets	14,711,060	4,341,439
Total net position	<u>39,949,641</u>	<u>38,041,623</u>
<b>TOTAL</b>	<u>\$ 74,110,353</u>	<u>\$ 72,699,041</u>

See notes to financial statements.

# WOODMEN HILLS METROPOLITAN DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<b>OPERATING REVENUE</b>		
Water and wastewater use fees	\$ 5,373,043	\$ 5,029,966
Parks and recreation fees	1,787,183	1,700,346
Other fees	<u>984,351</u>	<u>799,088</u>
Total operating revenue	<u>8,144,577</u>	<u>7,529,400</u>
<b>OPERATING EXPENSES</b>		
Wages and employee expenses	1,837,638	1,970,313
Depreciation	1,922,012	1,868,962
Operations	689,546	675,624
Repairs and maintenance	443,166	491,448
Utilities	392,382	424,011
General and administrative	<u>603,191</u>	<u>579,764</u>
Total operating expenses	<u>5,887,935</u>	<u>6,010,122</u>
<b>OPERATING INCOME</b>	<u>2,256,642</u>	<u>1,519,278</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Interest expense	(995,473)	(1,017,228)
Tap fees	496,351	564,524
Interest income	150,498	63,286
Gain on sale of capital assets	<u>                    </u>	<u>4,500</u>
Total non-operating expense, net	<u>(348,624)</u>	<u>(384,918)</u>
Change in net position	1,908,018	1,134,360
NET POSITION, Beginning of year	<u>38,041,623</u>	<u>36,907,263</u>
NET POSITION, End of year	<u>\$ 39,949,641</u>	<u>\$ 38,041,623</u>

See notes to financial statements.

# WOODMEN HILLS METROPOLITAN DISTRICT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 8,198,764	\$ 7,175,211
Cash payments for goods and services	(1,705,125)	(2,286,581)
Cash payments to employees for services	(1,842,717)	(1,985,446)
Net cash provided by operating activities	<u>4,650,922</u>	<u>2,903,184</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments on bonds and capital lease obligations	(995,000)	(970,000)
Interest paid on bonds and capital lease obligations	(937,896)	(964,677)
Tap fees collected	496,351	564,524
Proceeds from sale of capital assets		4,500
Acquisition of capital assets	(10,836,505)	(2,764,033)
Net cash used in capital and related financing activities	<u>(12,273,050)</u>	<u>(4,129,686)</u>
<b>INVESTING ACTIVITIES</b>		
Cash provided by investing activities — interest income	<u>150,498</u>	<u>63,286</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,471,630)	(1,163,216)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>22,726,531</u>	<u>23,889,747</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 15,254,901</u>	<u>\$ 22,726,531</u>
<b>RECONCILIATION OF CASH AND EQUIVALENTS TO THE STATEMENTS OF NET POSITION:</b>		
Cash and cash equivalents	\$ 13,292,317	\$ 11,803,490
Cash and cash equivalents — restricted	<u>1,962,584</u>	<u>10,923,041</u>
Total	<u>\$ 15,254,901</u>	<u>\$ 22,726,531</u>

(Continued)

# WOODMEN HILLS METROPOLITAN DISTRICT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 2,256,642	\$ 1,519,278
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,922,012	1,868,962
Changes in operating assets and liabilities:		
Accounts receivable	54,087	(347,989)
Prepaid expenses	(81,585)	(82,248)
Accounts payable and accrued expenses	542,166	(6,119)
Customer deposits	100	(6,200)
Other liabilities	(42,500)	(42,500)
Net cash provided by operating activities	<u>\$ 4,650,922</u>	<u>\$ 2,903,184</u>
NON-CASH TRANSACTIONS		
Amortization of deferred charge as interest expense	<u>\$ 59,049</u>	<u>\$ 54,507</u>

(Concluded)

See notes to financial statements.

# WOODMEN HILLS METROPOLITAN DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Woodmen Hills Metropolitan District (the District) is an independent governmental entity operating within El Paso County, Colorado. The following is a summary of the more significant policies consistently applied in the preparation of the District's financial statements.

**Reporting Entity** — The District was organized in November 1995 and is governed by a Board of Directors that is selected by an election of landowners within the District's legal boundaries. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District was organized to provide water and wastewater services to the property within its boundaries and to construct and maintain roads, bridges and park and recreation facilities including open space and trails on the property. The District has no component units as defined by the Governmental Accounting Standards Board (GASB).

**Basis of Accounting** — The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of GASB. The financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise; (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Net Position** — The District's net position is classified in the following three components:

- **Net investment in capital assets** — This component consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** — This component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets are 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. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- **Unrestricted** — This component consists of the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Budgets** — Budgets are prepared in accordance with the requirements of Colorado Revised Statutes – (29-1-103) and, accordingly, include anticipated income and other means of financing proposed expenditures. Expenditures also include, in addition to those shown in the operating statements, debt redemptions and capital expenditures.

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. Budgets are required by state law for all funds. During September, the proposed budget is submitted to the Board of Directors by the budget officer for the fiscal year commencing the following January 1. The budget includes proposed expenditures and means of financing them.
- B. Public hearings are conducted by the Directors to obtain rate payers comments.
- C. Prior to December 31, the budget is adopted and appropriations made by formal resolution.
- D. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund or changes in project or department budgets. Budget amounts included in the financial statements are based on the final, legally amended budget.
- E. Budget appropriations lapse at the end of each year.

Accordingly, budget comparisons are of the legally adopted budget. The level of budget control is determined by the resolution appropriating sums of monies. Encumbrances are neither recorded on the books of the District nor included in the budget. The Board of Directors has the authority to make budget amendments.

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

**Cash and Cash Equivalents** — Demand deposits, money market accounts and cash on hand are deemed to be cash equivalents for the purpose of the statement of cash flows.

**Accounts Receivable** — Accounts receivable are stated at the invoiced amount. The District performs periodic credit evaluations based on its customers' payment history. Management has determined accounts receivable are collectible and no allowance for doubtful accounts is deemed necessary.

**Capital Assets** — All development costs in excess of \$5,000 which have a useful life of greater than one year and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the lives of assets are capitalized. Capital assets are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from three to forty years.

**Deferred Inflows/Outflows 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 or fund balance that applies to future period(s) and thus will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. It is the refunding which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the life of the refunding debt.

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 or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no item of this nature.

**Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** — The District has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

## 2. DEPOSITS

The Colorado Public Deposit Protection Act (PDPA) requires all units of local government to deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by 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. The State Regulatory 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.

Federal Deposit Insurance Corporation (FDIC) coverage for government accounts is \$250,000 per official custodian.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2018 and 2017, the District's deposits were not exposed to custodial credit risk, as all deposits were insured by FDIC or collateralized in accordance with PDPA.

At December 31, 2018 and 2017, the District's deposits had a bank balance of \$16,894,530 and \$23,260,623, respectively, of which \$3,433,611 and \$3,404,518, respectively, was covered by federal depository insurance. The remainder of the bank balance of \$13,460,869 and \$19,856,105 at December 31, 2018 and 2017, respectively, was collateralized with securities held by the pledging financial institutions and covered by eligible collateral as determined by PDPA.

**Restricted Cash** — The District had restricted cash totaling \$1,962,584 and \$10,923,041 as of December 31, 2018 and 2017. As of December 31, 2018, \$185,265 was restricted for the construction of a new wastewater treatment facility, \$1,660,680 was restricted for bonds and \$116,639 was restricted for lottery funds. As of December 31, 2017 \$9,359,088 was restricted for the construction of a new wastewater treatment facility, \$1,482,913 was restricted for bonds and \$81,040 was restricted for lottery funds.

### 3. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2018 and 2017 is as follows:

	Balance at January 1, 2018	Increase	Decrease	Balance at December 31, 2018
Capital assets not being depreciated:				
Water rights	\$ 4,206,085			\$ 4,206,085
Land	676,901			676,901
Work in progress	<u>3,145,696</u>	<u>\$ 10,446,236</u>	<u>\$ 338,501</u>	<u>13,253,431</u>
Total capital assets not being depreciated	<u>8,028,682</u>	<u>10,446,236</u>	<u>338,501</u>	<u>18,136,417</u>
Capital assets being depreciated:				
Recreational facilities	4,572,511	204,355		4,776,866
Water and wastewater infrastructure	61,133,631	445,720		61,579,351
Vehicles and equipment	<u>789,317</u>	<u>78,695</u>		<u>868,012</u>
Total capital assets being depreciated	<u>66,495,459</u>	<u>728,770</u>	<u>—</u>	<u>67,224,229</u>
Less accumulated depreciation for:				
Recreational facilities	3,521,520	155,259		3,676,779
Water and wastewater infrastructure	21,851,231	1,695,258		23,546,489
Vehicles and equipment	<u>716,478</u>	<u>71,495</u>		<u>787,973</u>
Total accumulated depreciation	<u>26,089,229</u>	<u>1,922,012</u>	<u>—</u>	<u>28,011,241</u>
Total capital assets being depreciated, net	<u>40,406,230</u>	<u>(1,193,242)</u>	<u>—</u>	<u>39,212,988</u>
Total capital assets, net	<u>\$ 48,434,912</u>	<u>\$ 9,252,994</u>	<u>\$ 338,501</u>	<u>\$ 57,349,405</u>

	Balance at January 1, 2017	Increase	Decrease	Balance at December 31, 2017
Capital assets not being depreciated:				
Water rights	\$ 4,206,085			\$ 4,206,085
Land	676,901			676,901
Work in progress	<u>619,165</u>	<u>\$ 2,660,417</u>	<u>\$ 133,886</u>	<u>3,145,696</u>
Total capital assets not being depreciated	<u>5,502,151</u>	<u>2,660,417</u>	<u>133,886</u>	<u>8,028,682</u>
Capital assets being depreciated:				
Recreational facilities	4,556,560	15,951		4,572,511
Water and wastewater infrastructure	60,942,192	191,439		61,133,631
Vehicles and equipment	<u>783,234</u>	<u>30,112</u>	<u>24,029</u>	<u>789,317</u>
Total capital assets being depreciated	<u>66,281,986</u>	<u>237,502</u>	<u>24,029</u>	<u>66,495,459</u>
Less accumulated depreciation for:				
Recreational facilities	3,330,293	191,227		3,521,520
Water and wastewater infrastructure	20,238,945	1,612,286		21,851,231
Vehicles and equipment	<u>675,058</u>	<u>65,449</u>	<u>24,029</u>	<u>716,478</u>
Total accumulated depreciation	<u>24,244,296</u>	<u>1,868,962</u>	<u>24,029</u>	<u>26,089,229</u>
Total capital assets being depreciated, net	<u>42,037,690</u>	<u>(1,631,460)</u>	<u>—</u>	<u>40,406,230</u>
Total capital assets, net	<u>\$ 47,539,841</u>	<u>\$ 1,028,957</u>	<u>\$ 133,886</u>	<u>\$ 48,434,912</u>

The District has incurred depreciation expense of \$1,922,012 and \$1,868,962 for the years ended December 31, 2018 and 2017, respectively.

**4. LONG-TERM DEBT**

Long-term debt consists of revenue bonds and capital lease agreements. A summary of changes in long-term debt is as follows:

	Balance at January 1, 2018	Increase	Decrease	Balance at December 31, 2018	Amounts Due Within One Year
Water and Wastewater Enterprise Revenue Refunding Bonds, Series 2016	\$ 15,365,000		\$ 510,000	\$ 14,855,000	\$ 525,000
Lease purchase agreement, 2016	<u>18,605,000</u>		<u>485,000</u>	<u>18,120,000</u>	<u>495,000</u>
	<u>\$ 33,970,000</u>	<u>\$ —</u>	<u>\$ 995,000</u>	<u>\$ 32,975,000</u>	<u>\$ 1,020,000</u>
	Balance at January 1, 2017	Increase	Decrease	Balance at December 31, 2017	Amounts Due Within One Year
Water and Wastewater Enterprise Revenue Refunding Bonds, Series 2016	\$ 15,865,000		\$ 500,000	\$ 15,365,000	\$ 510,000
Lease purchase agreement, 2016	<u>19,075,000</u>		<u>470,000</u>	<u>18,605,000</u>	<u>485,000</u>
	<u>\$ 34,940,000</u>	<u>\$ —</u>	<u>\$ 970,000</u>	<u>\$ 33,970,000</u>	<u>\$ 995,000</u>

**Water and Wastewater Enterprise Revenue Refunding Bonds, Series 2016** — On March 29, 2016 the District issued Water and Wastewater Enterprise Revenue Refunding Bonds, Series 2016 (Series 2016 Bonds), with an original par value of \$16,200,000. The Series 2016 Bonds were issued to refund the Series 2009 Water and Wastewater Bonds and the Series 2009 Recreational Facilities Enterprise Revenue Refunding Bonds. The Series 2016 Bonds bear interest at a fixed rate of 2.75% through December 1, 2025, which is the Tender Date of the bonds. All principal and interest is due on the Tender Date unless the District elects to waive the full payment of the bonds on that date. If the District waives the payment of the bonds on the Tender Date then the bonds will continue to accrue interest at a rate of 8% through the final maturity date of December 1, 2044.

All, but not less than all, of the Series 2016 Bonds may be redeemed prior to maturity, at the option of the District on any date upon payment of the following redemption price:

Optional Redemption Date	Redemption Price
June 1, 2016 through November 30, 2019	103 %
December 1, 2019 through November 30, 2021	102
December 1, 2021 through November 30, 2022	101
December 1, 2022 and thereafter	100

**7. RESTRICTED NET POSITION**

Restricted net position consists of assets restricted for the following purposes at December 31:

	<b>2018</b>	<b>2017</b>
Construction of wastewater facilities	\$ 185,265	\$ 9,359,088
Parks and recreation	<u>116,639</u>	<u>81,040</u>
Total	<u>\$ 301,904</u>	<u>\$ 9,440,128</u>

**8. AMENDMENT TO COLORADO CONSTITUTION**

In November 1992, the voters of Colorado approved Amendment I, commonly known as the Taxpayer Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax spending, revenue and debt limitation that apply to the State of Colorado and all local governments. The District's financial activity for 1992 provides the basis for calculation of future limitations adjusted for allowable increases tied to inflation and local growth.

TABOR excludes enterprise governments from its provisions. Enterprise governments, defined as governmental-owned businesses that are authorized to issue revenue bonds and receive less than 10% of their annual revenue in grants from all state and local governments combined are excluded from the provisions of TABOR. The District is of the opinion that the enterprise operations qualify for the parks and recreation and water and wastewater system exclusion. 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 in the amendment's language to determine its compliance.

**9. EMPLOYEE BENEFIT PLAN**

The District offers a Section 457 deferred compensation plan for which employees are eligible after a year of employment. The District contributes 3% of the employee's salary for the calendar year, and makes matching contributions up to an additional 1.5% of the employee's salary reduction contributions. All contributions made under the plan are fully vested and nonrefundable. The Company contributed \$19,796 and \$33,200 to the plan for the years ended December 31, 2018 and 2017, respectively.

**10. COMMITMENTS, CONTINGENCIES AND RISKS**

The District has been operating under a cease and desist order from CDPHE because the current wastewater treatment system has been determined to be insufficient to provide treatment during the spring season. The District is cooperating fully with all of the CDPHE inquiries and is seeking a long-term solution to the wastewater needs, possibly in cooperation with neighboring water and wastewater districts. On March 10, 2015, CDPHE issued a Compliance Order on Consent to the District (Compliance Order). Among other requirements under the Compliance Order, the District is required to maintain compliance with the Water Quality Control Act (the Act), implement and continually optimize a BioShell pilot study, provide various updates and progress reports to CDPHE,

and obtain funding for and complete construction of facilities or other appropriate action to comply with the Act by October 31, 2018. As of December 31, 2018 the District was in compliance with the Act.

During the year ended December 31, 2015 the District entered into an agreement with another district (Adjoining District) to expand the District's facilities and to provide wastewater treatment to a maximum of 500 single family equivalents to the Adjoining District. The District committed to expand their facilities to support the added development. Construction of the new plant was awarded on May 25, 2017, the ground breaking occurred on June 30, 2017 and the project was completed in 2019. The Adjoining District is expected to pay the District \$1,500,000 for its proportionate share of the project. The Adjoining District has made an initial payment of \$213,000, which is recorded as unearned revenue in the Statement of Net Position as of December 31, 2018 and 2017.

**WOODMEN HILLS METROPOLITAN DISTRICT**

**SUPPLEMENTAL SCHEDULE**

# WOODMEN HILLS METROPOLITAN DISTRICT

## SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION — BUDGET (NON - GAAP) AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2018

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget (Unfavorable)
<b>REVENUE</b>			
Water and wastewater use fees	\$ 5,081,644	\$ 5,373,043	\$ 291,399
Parks and recreation use fees	1,844,917	1,787,183	(57,734)
Other fees	229,732	984,351	754,619
Tap fees	1,325,000	496,351	(828,649)
Interest income		150,498	150,498
Total revenue	<u>8,481,293</u>	<u>8,791,426</u>	<u>310,133</u>
<b>EXPENDITURES</b>			
Wages and employee expenses	2,189,034	1,837,638	351,396
Debt service	1,932,896	1,932,896	
Utilities	946,157	392,382	553,775
Operations	1,288,783	689,546	599,237
Repairs and maintenance	875,950	443,166	432,784
General and administrative	1,407,884	603,191	804,693
Total expenditures	<u>8,640,704</u>	<u>5,898,819</u>	<u>2,741,885</u>
EXCESS OF REVENUE OVER EXPENDITURES	(159,411)	2,892,607	3,052,018
FUNDS AVAILABLE - Beginning of year	<u>38,041,623</u>	<u>38,041,623</u>	
FUNDS AVAILABLE - End of year	<u>\$ 37,882,212</u>	40,934,230	<u>\$ 3,052,018</u>
<b>RECONCILIATION OF REVENUE AND EXPENSE - GAAP BASIS TO BUDGETARY BASIS</b>			
Debt service		1,932,896	
Interest expense		(995,473)	
Depreciation and amortization		<u>(1,922,012)</u>	
NET POSITION - GAAP BASIS		<u>\$ 39,949,641</u>	

