

**VILLAGE AT DRY CREEK METROPOLITAN
DISTRICT NO.1**

CITY OF THORNTON, COLORADO

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

December 31, 2018



Crady, Puca & Associates

Certified Public Accountants & Consultants

**VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO.1
CITY OF THORNTON, COLORADO**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Village at Dry Creek Metropolitan District No. 1
City of Thornton, Colorado

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village at Dry Creek Metropolitan District No. 1 as of December 31, 2018 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii-vi and 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund budgetary comparison schedules on pages 19-20 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund budgetary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Crady, Puca & Associates

Aurora, Colorado
June 28, 2019

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Statement of Net Position
December 31, 2018

	Total Governmental Activities
Assets:	
Cash and investments	\$ 27,305
Cash and investments - restricted	464,833
PIF receivable	358,553
Developer receivable	33,000
Capital and service obligation receivable	7,651,721
Capital assets:	
Not depreciated	310,000
Depreciated, net	<u>6,867,349</u>
Total assets	<u>15,712,761</u>
Liabilities:	
Accounts payable	42,956
Accrued interest	150,469
Developer payables:	
Due within one year	-
Due in more than one year	<u>7,501,252</u>
Total liabilities	<u>7,694,677</u>
Net position:	
Net investment in capital assets	-
Restricted for emergencies	3,053
Restricted for debt service	823,386
Unrestricted	<u>7,191,645</u>
Total net position	<u>\$ 8,018,084</u>

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

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Statement of Activities
For the Year Ended December 31, 2018

	Total Governmental Activities
Expenditures:	
Governmental activities:	
Accounting and audit	\$ 15,626
Legal	61,162
Insurance and bonds	5,287
Dues	331
Other administration	60
PIF collection fee	18,570
Engineering	17,602
Elections	1,712
Depreciation	69,366
Interest on long-term debt	136,636
Total expenditures	<u>326,352</u>
General Revenues:	
PIF revenue	841,268
Interest income	175
Other income	513
Total general revenues	<u>841,956</u>
Change in net position	<u>515,604</u>
Other financing sources (uses):	
Intergovernmental revenue for capital and service obligations	7,488,351
Total other financing sources (uses)	<u>7,488,351</u>
Change in net position	8,003,955
Net position, beginning of year	14,129
Net position, end of year	<u>\$ 8,018,084</u>

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

FUND FINANCIAL STATEMENTS

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Balance Sheet
Governmental Funds
December 31, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and investments	\$ 27,305	\$ -	\$ -	\$ 27,305
Cash and investments - restricted	-	-	464,833	464,833
PIF receivable	-	-	358,553	358,553
Developer receivable	33,000	-	-	33,000
Total assets	<u>\$ 60,305</u>	<u>\$ -</u>	<u>\$ 823,386</u>	<u>\$ 883,691</u>
Liabilities:				
Accounts payable	\$ 42,956	\$ -	\$ -	\$ 42,956
Total liabilities	<u>42,956</u>	<u>-</u>	<u>-</u>	<u>42,956</u>
Fund balance:				
Restricted for emergencies	3,053	-	-	3,053
Restricted for debt service	-	-	823,386	823,386
Unassigned	14,296	-	-	14,296
Total fund balance	<u>17,349</u>	<u>-</u>	<u>823,386</u>	<u>840,735</u>
Total liabilities and fund balances	<u>\$ 60,305</u>	<u>\$ -</u>	<u>\$ 823,386</u>	<u>\$ 883,691</u>

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - governmental funds	840,735
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	7,177,349
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	7,651,721
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	(7,651,721)
Net position of governmental activities	<u>\$ 8,018,084</u>

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

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Credit PIF revenue	\$ -	\$ -	\$ 654,320	\$ 654,320
Add-on PIF revenue	-	-	186,948	186,948
Interest income	-	-	175	175
Other income	-	-	513	513
Total revenues	<u>-</u>	<u>-</u>	<u>841,956</u>	<u>841,956</u>
Expenditures:				
Current:				
General government:				
Accounting	15,626	-	-	15,626
Legal	61,162	-	-	61,162
Insurance and bonds	5,287	-	-	5,287
Dues	331	-	-	331
Other administration	60	-	-	60
PIF collection agent fee	-	-	18,570	18,570
Engineering	17,602	-	-	17,602
Elections	1,712	-	-	1,712
Capital outlay	-	7,246,715	-	7,246,715
Total expenditures	<u>101,780</u>	<u>7,246,715</u>	<u>18,570</u>	<u>7,367,065</u>
Excess of revenue over (under) expenditures	<u>(101,780)</u>	<u>(7,246,715)</u>	<u>823,386</u>	<u>(6,525,109)</u>
Other financing sources (uses):				
Advances on developer debt	105,000	7,246,715	-	7,351,715
Total other financing sources (uses)	<u>105,000</u>	<u>7,246,715</u>	<u>-</u>	<u>7,351,715</u>
Net change in fund balance	3,220	-	823,386	826,606
Fund balance, beginning of year	14,129	-	-	14,129
Fund balance, end of year	<u>\$ 17,349</u>	<u>\$ -</u>	<u>\$ 823,386</u>	<u>\$ 840,735</u>

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

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance of the Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2018

	Total Governmental Funds
	<hr/>
Net change in fund balance of the governmental funds	\$ 826,606
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.	7,177,349
Revenues in the government-wide statements of activities that are not measureable and available in the governmental funds are not reported as revenue in the governmental funds.	7,488,351
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt.	(7,351,715)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	<u>(136,636)</u>
Change in net position of governmental activities	<u><u>\$ 8,003,955</u></u>

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies of the Village at Dry Creek Metropolitan District No. 1 (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of such significant policies consistently applied in the preparation of the financial statements.

Reporting Entity

The District is a quasi-municipal corporation of the State of Colorado organized by a court order dated February 21, 2013 and operated pursuant to provisions set forth in the Colorado Special District Act. The District was organized concurrently with Village at Dry Creek Metropolitan District No. 2 to 3 (District Nos. 2-3). The District was established for the primary purpose of the operating district and is expected to coordinate the financing, construction and maintenance of all public improvements. District Nos. 2-3 are proposed to be the financing districts which are expected to include all of the future development comprising the project and provide the revenue to support the District improvements and other services. The operating district will be permitted to provide public services and facilities in City of Thornton, Colorado.

The District is to convey the completed public improvements, other than certain infrastructure and parks and recreation located in the District, to the City or other appropriate jurisdictions.

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

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

Basis of Presentation

While separate government-wide and fund financial statements are presented, they are interrelated. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the governmental activities of the District which are financed primarily by public improvement fees and intergovernmental revenues from the financing Districts.

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

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

Basis of Presentation (continued)

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period except for public improvement fees. Public improvement fees are recognized as revenues if they collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The District reports the following major governmental funds:

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

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

Debt Service Fund - accounts for collection of Public Improvement Fee revenues and payments on debt service or debt issued.

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

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

Deposits and Investments

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

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

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs. At December 31, 2018, the District did not hold any investments required to be reported under fair value.

Receivables

Receivables consist of public improvement fees earned as of December 31, 2018. The District considers all receivables collectible as of December 31, 2018.

Capital Assets

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

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

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

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

Capital Assets (continued)

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

<u>Assets</u>	<u>Years</u>
Parks and recreation	25
Infrastructure	25

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time frame. In the current year, the District did not have any items in this reporting category.

Long-Term Obligations

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

Fund Balance

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

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

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

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the District's Board of Directors, the District's highest level of decision making authority. As of December 31, 2018, no amounts have been committed.

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

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

Fund Balance (continued)

Assigned fund balance. This classification reflects the amounts constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed. As of December 31, 2018, no amounts have been assigned.

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

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

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

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

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

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

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

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

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

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

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

After adoption of the budget resolution, the District may make the following changes: (a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; (b) it may approve supplemental appropriations to the extent of revenues in excess of the estimated revenues in the budget; (c) it may approve emergency appropriations; and (d) it may approve the reduction of appropriations for which originally estimated revenues are insufficient. The budget is only amended in conformity with Colorado Revised Statutes which allows the District to amend the budget and adopt a supplementary appropriation if money for a specific purpose, other than ad valorem taxes, becomes available to meet a contingency.

The level of control in the budget at which expenditures exceeded appropriations is at the fund level. All appropriations lapse at year end.

TABOR Amendment - Revenue and Spending Limitation Amendment

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

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service, federal grants and sales of assets). The District has reserved a portion of its December 31, 2018 year-end fund balance in the General Fund and Operations Fund for emergencies as required under TABOR totaling \$3,053 which is the approximate required reserve at December 31, 2018.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2018

2. Stewardship, Compliance, and Accountability (continued)

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

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

3. Detailed Notes on the Funds

Deposits and Investments

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

Cash and investments	\$ 27,305
Cash and investments - restricted	<u>464,833</u>
	<u>\$ 492,138</u>

All amounts are held as deposits in a financial institution.

Cash Deposits

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

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

Investments

The District has not adopted a formal investment policy; however, it follows state statutes regarding investments. The District did not hold any investments at December 31, 2018.

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

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2018

3. Detailed Notes on the Funds (continued)

Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 310,000	\$ -	\$ 310,000
Total capital assets, not being depreciated	<u>-</u>	<u>310,000</u>	<u>-</u>	<u>310,000</u>
Capital assets being depreciated:				
Parks and recreation	-	4,399,695	-	4,399,695
Infrastructure	-	2,537,020	-	2,537,020
Total capital assets being depreciated	<u>-</u>	<u>6,936,715</u>	<u>-</u>	<u>6,936,715</u>
Less accumulated depreciation for:				
Parks and recreation	-	(43,997)	-	(43,997)
Infrastructure	-	(25,369)	-	(25,369)
Total accumulated depreciation	<u>-</u>	<u>(69,366)</u>	<u>-</u>	<u>(69,366)</u>
Total capital assets being depreciated, net	<u>-</u>	<u>6,867,349</u>	<u>-</u>	<u>6,867,349</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 7,177,349</u>	<u>\$ -</u>	<u>\$ 7,177,349</u>

Depreciation expense of \$69,366 was charged to general government.

Long-Term Obligations

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Developer advance – operations	\$ 149,537	\$ 105,000	\$ -	\$ 254,537	\$ -
Developer advance – capital	-	7,246,715	-	7,246,715	-
Governmental activities long-term debt	<u>\$ 149,537</u>	<u>\$ 7,351,715</u>	<u>\$ -</u>	<u>\$ 7,501,252</u>	<u>\$ -</u>

At December 31, 2018, the District had total authorized debt of \$280,000,000 none of which has been issued, leaving an authorized but unissued balance of \$280,000,000. Per the District's Service Plan, the District and District Nos. 2-3 cannot issue debt in excess of \$55,000,000, not including refinancing debt, without the approval of the City.

3. **Detailed Notes on the Funds (continued)**

Developer Obligations

Amended and Restated Advance and Reimbursement Agreement

On April 1, 2016, the District entered into an Amended and Restated Advance and Reimbursement Agreement (Advance Agreement) with Simon Acquisition II, LLC to fund the operations costs shortfall of the District. Interest is to be accrued on this obligation at 8% per annum accruing for each advance from the date of the advance. On March 5, 2019, the Agreement was terminated and the balances were transferred to a new agreement with the Developer, Denver Premium Outlets, LLC. Under the Advance Agreement, the principal balance as of December 31, 2018 amounted to \$254,537 and the accrued interest amounted to \$30,104.

Improvement Acquisition and Reimbursement Agreement

On March 22, 2018, the District, District Nos. 2-3, and the Developer (Denver Premium Outlets, LLC) entered into an Infrastructure Acquisition and Reimbursement Agreement (Infrastructure Agreement). Under the Infrastructure Agreement, the District established a process by which the District can reimburse the Developer for Certified District Eligible Costs incurred by the Developer for the public infrastructure. Under the Infrastructure Agreement, the District will not be directly responsible for funding the reimbursement of the Certified District Eligible Costs, but rather District Nos. 2-3 shall generate such revenues. Simple interest shall accrue at 6.25% per annum upon adoption of an acceptance resolution. The District shall undertake good faith efforts to issue general obligation bonds or other indebtedness to generate funds to pay such obligations at the earliest practicable date. Such obligations shall be secured by the District's pledge of ad valorem property tax as permitted by the service plan and electoral authorizations and any other legally available revenues of the District that are pledged for payment thereof. Per the agreement, any mill levy certified for the purpose of repaying the obligation shall not exceed 50 mills.

On September 25, 2018, The District approved a resolution regarding the acceptance of district eligible costs for public improvements funded by the Developer which amounted to \$7,246,715. The resolution provides for payments subject to annual appropriations and does not guarantee future payments. Under the Infrastructure Agreement, the principal balance as of December 31, 2018 amounted to \$7,246,715 and the accrued interest amounted to \$120,365.

4. **Related Party**

All members of the Board of Directors are associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board. The District has entered into various funding agreements with the Developer, see Note 3, and a Public Finance Agreement, see Note 5.

5. Agreements

Public Finance Agreement

In October 2015, the District entered into a Public Finance Agreement with District Nos. 2-3, the Developer and the City of Thornton (City) for the development of a Retail Outlet Center (Outlet Center). Under this agreement, the Developer agrees to impose a Credit Public Improvement Fee (PIF) and Add-on PIF of 1.4% and .4% on taxable sales, respectively. And if pledged, an Outparcel Add-on PIF. The District shall assign the Pledged PIF revenue to the District that issues the District Bonds or to the District Bond Trustee until the payment in full of the District Bonds. Any Add-on PIF revenue that is not pledged shall be used to repay certain developer advances. Under the agreement, the District may impose a debt service mill levy up to 50 mills during the terms of this agreement, subject to valuation adjustments.

Under this agreement, the City has the option, but not the obligation, to make a City Contribution to pay or reimburse costs up to a maximum amount of \$6,000,000. The City will implement a sales tax credit equal to 1.4% of the sales tax collected on taxable sales within Phase 1 and 2 of the Outlet Center. The sales tax credit for Phase 1 will be in place until the earlier of (a) 25 years after the date of the grand opening (b) payment in full or defeasance of all outstanding Phase 1 District Bonds, or (c) if Phase 1 bonds are not issued, payment of allowed costs. The sales tax credit for Phase 2 will be in place until the earlier of (a) 25 years after the date of the grand opening of Phase 1 (b) payment in full or defeasance of all outstanding Phase 2 District Bonds, or (c) if Phase 2 bonds are not issued, payment of allowed costs.

The agreement will terminate upon payment in full of the District Bonds or full performance of the covenants of the Agreement, whichever occurs later, and 25 years after the grand opening of Phase 1 of the Outlet Center.

6. Risk Management

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

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

7. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

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

Capital assets of \$7,246,715 less accumulated depreciation of \$69,366 or a net book value of \$7,177,349 are not financial resources and therefore are not reported in the funds.

Capital and service obligation receivable due from the financing districts of \$7,651,721 is not available for current period expenditures and, therefore, not reported in the funds.

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

Developer payable – capital	\$ (7,246,715)
Developer payable – operations	(254,537)
Accrued interest on developer debt	(150,469)
Net adjustment	<u>\$ (7,651,721)</u>

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

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or ultimately conveyed to another governmental entity. The details of this difference are as follows:

Capital outlay	\$ 7,246,715
Depreciation expense	(69,366)
	<u>\$ 7,177,349</u>

Revenues in the government-wide statements of activities that are not measurable and available in the governmental funds are not reported as revenue in the governmental funds. The difference is due to the change in the capital and service obligation receivable of \$7,488,351.

The issuance of long-term debt (e.g. bonds payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The difference is due to developer debt advances of \$7,351,715.

Another element of the reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The difference is due to accrued interest on developer debt of \$136,636.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2018

8. Subsequent Events

On April 16, 2019, the District accepted additional capital infrastructure in the amount of \$18,603,744 and incurred a developer advance of \$18,603,744 under the Infrastructure Agreement. A portion of these assets will be conveyed to other governmental entities in 2019.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Other income	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
General government:				
Accounting	18,060	18,060	15,626	2,434
Legal	40,000	50,000	61,162	(11,162)
Insurance and bonds	2,500	5,300	5,287	13
Dues	330	330	331	(1)
Engineering	10,000	15,000	17,602	(2,602)
Elections	2,000	2,000	1,712	288
Other administration	60	410	60	350
Snow removal	10,500	-	-	-
Contingency	-	100,000	-	100,000
Total expenditures	<u>83,450</u>	<u>191,100</u>	<u>101,780</u>	<u>89,320</u>
Excess of revenues over (under) expenditures	<u>(83,450)</u>	<u>(191,100)</u>	<u>(101,780)</u>	<u>89,320</u>
Other financing sources (uses):				
Developer advances	72,023	201,000	105,000	(96,000)
Total other financing sources (uses)	<u>72,023</u>	<u>201,000</u>	<u>105,000</u>	<u>(96,000)</u>
Net change in fund balance	(11,427)	9,900	3,220	(6,680)
Fund balance, beginning of year	<u>16,427</u>	<u>14,129</u>	<u>14,129</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,000</u>	<u>\$ 24,029</u>	<u>\$ 17,349</u>	<u>\$ (6,680)</u>

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

SUPPLEMENTARY INFORMATION

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Capital Projects Fund
For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Other income	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Capital Outlay		7,246,715	7,246,715	-
Total expenditures	<u>-</u>	<u>7,246,715</u>	<u>7,246,715</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>(7,246,715)</u>	<u>(7,246,715)</u>	<u>-</u>
Other financing sources (uses):				
Developer advances	-	7,246,715	7,246,715	-
Total other financing sources (uses)	<u>-</u>	<u>7,246,715</u>	<u>7,246,715</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 1
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Debt Service Fund
For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Credit PIF revenue	\$ -	\$ 389,000	\$ 654,320	\$ 265,320
Add-on PIF revenue	-	111,000	186,948	75,948
Interest income	-	-	175	175
Other income	-	-	513	513
Total revenues	<u>-</u>	<u>500,000</u>	<u>841,956</u>	<u>341,956</u>
Expenditures:				
General government:				
PIF collection fee	-	10,000	18,570	(8,570)
Contingency	-	10,000	-	10,000
Total expenditures	<u>-</u>	<u>20,000</u>	<u>18,570</u>	<u>1,430</u>
Net change in fund balance	-	480,000	823,386	343,386
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ 480,000</u>	<u>\$ 823,386</u>	<u>\$ 343,386</u>

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