



CHEROKEE METROPOLITAN DISTRICT

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION With Independent Auditors' Report

YEAR ENDED DECEMBER 31, 2019

BOARD OF DIRECTORS

President Steve Hasbrouck
Vice President Walt Herrley
Secretary Dennis Daniels
Treasurer Larry Keleher
Director Rene Sintas

Amy Lathen – General Manager

CHEROKEE METROPOLITAN DISTRICT

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cherokee Metropolitan District
Colorado Springs, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Cherokee Metropolitan District, (the District) as of and for the year ended December 31, 2019, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 1 through 5 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 supplemental 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules on pages 37 through 39 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Stockman Kast Ryan + Co. LLP

September 29, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHEROKEE METROPOLITAN DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) is presented to provide an overview of the financial activities and conditions for the fiscal year ended on December 31, 2019. The MD&A contains information currently known to management as of the date of the auditor's report. The MD&A should be read in conjunction with the District's financial statements that accompany this report.

FINANCIAL HIGHLIGHTS

- Total Assets equaled: \$120,089,973 for 2019.
- Cash, Cash Equivalents and Investments as of December 31, 2019 were \$17,467,111.
- Total Liabilities, as of December 31, 2019, equaled \$25,810,867.
- Net Position, as of December 31, 2019, totaled \$94,279,106.
- Governmental change in Net Position from 2018 to 2019 totaled \$95,140.
- Business-type change in Net Position from 2018 to 2019 totaled \$6,334,394.

FINANCIAL STATEMENTS

The financial statements consist of three parts - management discussion and analysis, the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two are government-wide statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplemental information that further explains and supports the information in the financial statements.

Government-wide Statements — The government-wide statements consist of the Statement of Net Position and the Statement of Activities. These statements report information about the District as a whole and include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in them. The District's net position, the difference between assets and liabilities, is one way to measure the District's financial status, or financial position. Over time increases or decreases in the District's net position is one indicator whether its financial health is improving or deteriorating.

Fund Financial Statements — The fund financial statements provide more detailed information about the District's funds, focusing on its most significant funds, not the District as a whole. The District's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental Funds — The activity of the District's General fund is reported as a governmental fund, which focuses on how money flows into and out of the General fund. This fund is reported using the modified accrual accounting method, which measures cash and all of the other financial assets that can readily be converted to cash. The governmental fund statement provides a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs.

Proprietary (Enterprise) Funds — The activity of the District Enterprise funds is to report the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the District's Enterprise fund is the same as the business-type activities reported in the governmental-wide statements but provides more detailed and additional information, such as cash flows.

District Specific — The Cherokee Metropolitan District utilizes two separate financial categories of activities; one for the general district functions and one for the enterprise, or business-type functions. Each of these, in turn, is segregated into operational and capital functions. Together, these comprise the overall government-wide statements. The Governmental, or general, category covers the public functions involving: street lighting and parks. The Proprietary, or Business-type, category involves the public provision of water, wastewater, reuse water, related administration, and golf course functions. The Governmental functions are funded by fees and conservation trust funds. The Proprietary functions are funded by water and sewer user charges, tap fees, golf fees, and, similarly, bond financing when required for capital projects.

FINANCIAL POSITION & RESULTS FROM OPERATIONS

NET POSITION:

	2019			2018		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
ASSET						
Other	\$ 412,401	\$ 18,938,510	\$ 19,350,911	\$ 336,615	\$ 11,757,764	\$ 12,094,379
Capital	<u>512,759</u>	<u>100,226,303</u>	<u>100,739,062</u>	<u>491,137</u>	<u>102,064,588</u>	<u>102,555,725</u>
Total assets	<u>\$ 925,160</u>	<u>\$ 119,164,813</u>	<u>\$ 120,089,973</u>	<u>\$ 827,752</u>	<u>\$113,822,352</u>	<u>\$ 114,650,104</u>

	2019			2018		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
LIABILITIES						
Current	\$ 14,851	\$ 2,840,007	\$ 2,854,858	\$ 12,583	\$ 2,423,809	\$ 2,436,392
Long-term		22,956,009	22,956,009		24,364,140	24,364,140
Total liabilities	<u>\$ 14,851</u>	<u>\$ 25,796,016</u>	<u>\$ 25,810,867</u>	<u>\$ 12,583</u>	<u>\$ 26,787,949</u>	<u>\$ 26,800,532</u>
NET POSITION						
Net investment in capital assets	\$ 512,759	\$ 75,916,496	\$ 76,429,255	\$ 491,137	\$ 76,385,058	\$ 76,876,195
Restricted position	148,039	3,364,190	3,512,229	191,656	1,742,952	1,934,608
Unrestricted position	249,511	14,088,111	14,337,622	132,376	8,906,393	9,038,769
Total net position	<u>\$ 910,309</u>	<u>\$ 93,368,797</u>	<u>\$ 94,279,106</u>	<u>\$ 815,169</u>	<u>\$ 87,034,403</u>	<u>\$ 87,849,572</u>

Condensed Statements of Activities for the years ended December 31, 2019 and 2018.

	2019			2018		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Charges for service	\$ 311,915	\$ 13,881,555	\$ 14,193,470	\$ 305,953	\$13,712,022	\$14,017,975
Operating grants and contributions	137,748		137,748	118,700	118,216	236,916
Capital grants and contributions		3,731,822	3,731,822		1,433,705	1,433,705
Investment earnings	2,539	217,912	220,451	4,984	112,672	117,656
Other revenues	17	438,447	438,464	677	362,253	362,930
Total revenues	<u>452,219</u>	<u>18,269,736</u>	<u>18,721,955</u>	<u>430,314</u>	<u>15,738,868</u>	<u>16,169,182</u>
FUNCTIONAL						
Street lights	121,840		121,840	119,756		119,756
Parks	235,239		235,239	258,343		258,343
Water and wastewater		10,836,863	10,836,863		11,313,063	11,313,063
Golf course		1,098,479	1,098,479		1,063,456	1,063,456
Total expenditures	<u>357,079</u>	<u>11,935,342</u>	<u>12,292,421</u>	<u>378,099</u>	<u>12,376,519</u>	<u>12,754,618</u>
Change in net position	<u>95,140</u>	<u>6,334,394</u>	<u>6,429,534</u>	<u>52,215</u>	<u>3,362,349</u>	<u>3,414,564</u>
Net position beginning of year	<u>815,169</u>	<u>87,034,403</u>	<u>87,849,572</u>	<u>762,954</u>	<u>83,672,054</u>	<u>84,435,008</u>
Net position end of year	<u>\$ 910,309</u>	<u>\$ 93,368,797</u>	<u>\$ 94,279,106</u>	<u>\$ 815,169</u>	<u>\$ 87,034,403</u>	<u>\$ 87,849,572</u>

Both Governmental and Business-type Activities exhibited a positive change in net position primarily attributable to monitoring expenditures in conjunction with increasing fee revenue.

ANALYSIS OF POSITION

The overall financial position of the District increased during 2019, due to continued monitoring of operating expenditures and increasing revenue due to growth.

During 2019, supplementary appropriations approved by the District's Board of Directors modified the

appropriation from \$1,047,323 to \$1,047,900 in the Golf Course Enterprise Fund to account primarily for increases in resale merchandise expenditures. In addition, appropriations were increased from \$261,728 to \$335,728 for additional capital improvements in the Parks Fund

Capital assets for both Governmental and Business-type Activities increased as the District continues to make improvements to its parks, golf course and water and wastewater infrastructure.

CAPITAL ASSETS:

	2019			2018		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Water and Wastewater fund and Golf course	\$	\$ 132,107,536	\$ 132,107,536	\$	\$ 131,296,027	\$ 131,296,027
Street light and park improvements	1,035,204		1,035,204	952,823		952,823
Accumulated depreciation	(522,445)	(31,316,233)	(31,838,678)	(461,686)	(28,666,439)	(29,128,125)
Impairment		(565,000)	(565,000)		(565,000)	(565,000)
Total capital assets, net	<u>\$ 512,759</u>	<u>\$ 100,226,303</u>	<u>\$ 100,739,062</u>	<u>\$ 491,137</u>	<u>\$ 102,064,588</u>	<u>\$ 102,555,725</u>

The long-term liabilities decreased during 2019 by \$1,369,723 in the Water and Wastewater fund due to significant principal payments being made on outstanding debt.

LONG-TERM DEBT:

	2019			2018		
	Governmental Activities	Proprietary Activities	Total	Governmental Activities	Proprietary Activities	Total
Bonds payable	\$	\$ 15,690,685	\$ 15,690,685		\$ 16,206,316	\$ 16,206,316
Notes payable		8,619,122	8,619,122	\$	9,473,214	9,473,214
Total debt	<u>\$ -</u>	<u>\$ 24,309,807</u>	<u>\$ 24,309,807</u>	<u>\$ -</u>	<u>\$ 25,679,530</u>	<u>\$ 25,679,530</u>

FUTURE TRENDS AND ECONOMIC FACTORS

Cherokee Metropolitan District's financial position has maintained a record of steady growth. Residential building increased in 2019 as mortgage rates subsided. Engineering services were brought in house in 2019 to help curtail the costs of contracted consultants for day-to day operations and minor capital projects. The District will continue to look for innovative ways to reduce operating expenditures while maintaining a high level of customer service. As of December 31, 2019 there are 7,358 residential taps and 644 commercial taps being serviced by the District.

Water return flow quality limits imposed by the State of Colorado have made it necessary for the District to construct a multi-million dollar facility to remedy the situation. The District plans to issue bonds in 2020 to start the construction of a Reverse Osmosis Plant that will enable the District to meet the State-mandated order. In addition, the District continues to look to purchase new and renewable water resources. This will help secure resources necessary for future growth and to improve return flow qualities.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Cherokee Metropolitan District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to Amy Lathen, General Manager, at (719) 597-5080.

BASIC FINANCIAL STATEMENTS

CHEROKEE METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
December 31, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 13,963,782	\$ 13,963,782
Cash and cash equivalents, restricted	139,139	3,364,190	3,503,329
Total cash and cash equivalents	139,139	17,327,972	17,467,111
Accounts receivable	-	1,773,174	1,773,174
Inventories	-	65,271	65,271
Prepaid expenses	462	44,893	45,355
Due (to) from other funds	272,800	(272,800)	-
Capital assets, net of accumulated depreciation	512,759	100,226,303	100,739,062
Total assets	<u>925,160</u>	<u>119,164,813</u>	<u>120,089,973</u>
LIABILITIES			
Accounts payable	14,851	714,672	729,523
Accrued expenses	-	257,000	257,000
Accrued interest	-	346,995	346,995
Customer deposits	-	167,542	167,542
Long-term liabilities			
Due within one year	-	1,353,798	1,353,798
Due in more than one year	-	22,956,009	22,956,009
Total liabilities	<u>14,851</u>	<u>25,796,016</u>	<u>25,810,867</u>
NET POSITION			
Net investment in capital assets	512,759	75,916,496	76,429,255
Restricted	148,039	3,364,190	3,512,229
Unrestricted	249,511	14,088,111	14,337,622
Total net position	<u>\$ 910,309</u>	<u>\$ 93,368,797</u>	<u>\$ 94,279,106</u>

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

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Lighting	\$ 121,840	\$ 136,007	\$ -	\$ -	\$ 14,167	\$ -	\$ 14,167
Parks	235,239	175,908	137,748	-	78,417	-	78,417
General government	357,079	311,915	137,748	-	92,584	-	92,584
Business-type activities:							
Water and Wastewater Fund	10,836,863	12,861,838	-	3,731,822	-	5,756,797	5,756,797
Golf Course Fund	1,098,479	1,019,717	-	-	-	(78,762)	(78,762)
Total	\$ 11,935,342	\$ 13,881,555	\$ -	\$ 3,731,822	\$ -	\$ 5,678,035	\$ 5,678,035
General revenue:							
Investment earnings					2,539	217,912	220,451
Grant revenue					-	-	-
Other revenue					17	438,447	438,464
Total general revenue					2,556	656,359	658,915
Change in net position					95,140	6,334,394	6,429,534
Net position - Beginning					815,169	87,034,403	87,849,572
Net position - Ending					\$ 910,309	\$ 93,368,797	\$ 94,279,106

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**CHEROKEE METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2019**

	General Fund	Parks Fund	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	\$ -	\$ 139,139	\$ 139,139
Prepaid expense	-	462	462
Accounts receivable, other	-	-	-
Due from other funds	173,914	98,886	272,800
Total assets	<u>\$ 173,914</u>	<u>\$ 238,487</u>	<u>\$ 412,401</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 7,697	\$ 7,154	\$ 14,851
Due to other funds	-	-	-
Total liabilities	<u>7,697</u>	<u>7,154</u>	<u>14,851</u>
FUND BALANCE			
Restricted	8,900	139,139	148,039
Unassigned	157,317	92,194	249,511
Total fund balance	<u>166,217</u>	<u>231,333</u>	<u>397,550</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 173,914</u>	<u>\$ 238,487</u>	<u>\$ 412,401</u>

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position:

Total fund balance, governmental funds	\$ 397,550
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital assets	<u>512,759</u>
Net position of governmental activities	<u>\$ 910,309</u>

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

CHEROKEE METROPOLITAN DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
Year Ended December 31, 2019

	<u>General Fund</u>	<u>Parks Fund</u>	<u>Total Governmental Funds</u>
REVENUE			
Fees	\$ 136,007	\$ 175,908	\$ 311,915
Conservation Trust funds	-	137,748	137,748
Interest/miscellaneous income	-	2,556	2,556
Total revenues	<u>136,007</u>	<u>316,212</u>	<u>452,219</u>
EXPENDITURES			
Lighting	121,840	-	121,840
Parks, landscape and open space	-	256,861	256,861
Total expenditures	<u>121,840</u>	<u>256,861</u>	<u>378,701</u>
NET CHANGE IN FUND BALANCE	14,167	59,351	73,518
FUND BALANCE - BEGINNING OF YEAR	<u>152,050</u>	<u>171,982</u>	<u>324,032</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 166,217</u></u>	<u><u>\$ 231,333</u></u>	<u><u>\$ 397,550</u></u>

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

**CHEROKEE METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2019**

A reconciliation reflecting the differences between the governmental funds net change in fund balances and change in net position reported for governmental activities in the Statement of Activities as follows:

Net change in fund balances - Total governmental funds	<u>\$ 73,518</u>
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays for the period.	<u>21,622</u>
Change in net position - Governmental activities	<u><u>\$ 95,140</u></u>

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

CHEROKEE METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2019

ASSETS	Water and Wastewater Fund	Golf Course Fund	Total
Current assets			
Cash and cash equivalents	\$ 13,860,308	\$ 103,474	\$ 13,963,782
Accounts receivable	1,773,174	-	1,773,174
Inventories	-	65,271	65,271
Prepaid expenses	42,682	2,211	44,893
Total current assets	<u>15,676,164</u>	<u>170,956</u>	<u>15,847,120</u>
Non-current assets			
Restricted cash and cash equivalents	3,364,190	-	3,364,190
Capital assets, net of depreciation	<u>98,082,764</u>	<u>2,143,539</u>	<u>100,226,303</u>
Total non-current assets	<u>101,446,954</u>	<u>2,143,539</u>	<u>103,590,493</u>
TOTAL ASSETS	<u><u>\$ 117,123,118</u></u>	<u><u>\$ 2,314,495</u></u>	<u><u>\$ 119,437,613</u></u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable	\$ 712,490	\$ 2,182	\$ 714,672
Accrued expenses	256,043	957	257,000
Accrued interest	346,995	-	346,995
Due to other funds	110,097	162,703	272,800
Customer deposits	167,542	-	167,542
Notes payable - current portion	873,798	-	873,798
Bonds payable - current portion	<u>480,000</u>	<u>-</u>	<u>480,000</u>
Total current liabilities	<u>2,946,965</u>	<u>165,842</u>	<u>3,112,807</u>
Non-current liabilities			
Notes payable	7,745,324	-	7,745,324
Bonds payable	<u>15,210,685</u>	<u>-</u>	<u>15,210,685</u>
Total non-current liabilities	<u>22,956,009</u>	<u>-</u>	<u>22,956,009</u>
Total liabilities	<u>25,902,974</u>	<u>165,842</u>	<u>26,068,816</u>
NET POSITION			
Net investment in capital assets	73,772,957	2,143,539	75,916,496
Restricted	3,364,190	-	3,364,190
Unrestricted	<u>14,082,997</u>	<u>5,114</u>	<u>14,088,111</u>
Total net position	<u>91,220,144</u>	<u>2,148,653</u>	<u>93,368,797</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 117,123,118</u></u>	<u><u>\$ 2,314,495</u></u>	<u><u>\$ 119,437,613</u></u>

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

CHEROKEE METROPOLITAN DISTRICT
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2019

	Water and Wastewater Fund	Golf Course Fund	Total
OPERATING REVENUE			
Water sales	\$ 7,429,124	\$ -	\$ 7,429,124
Sewer services	5,321,095	-	5,321,095
TDS Surcharge	111,619	-	111,619
Golf revenues	-	776,576	776,576
Resale	-	243,141	243,141
Total operating revenue	<u>12,861,838</u>	<u>1,019,717</u>	<u>13,881,555</u>
OPERATING EXPENSES			
Water system	2,864,876	-	2,864,876
Wastewater system	2,622,678	-	2,622,678
Golf course operations	-	799,555	799,555
General and administrative	1,975,439	210,690	2,186,129
Depreciation	2,561,560	88,234	2,649,794
Total operating expenses	<u>10,024,553</u>	<u>1,098,479</u>	<u>11,123,032</u>
OPERATING INCOME	<u>2,837,285</u>	<u>(78,762)</u>	<u>2,758,523</u>
NONOPERATING REVENUE AND (EXPENSES)			
Tap fees	3,731,822	-	3,731,822
Interest income	217,912	-	217,912
Miscellaneous income	436,658	1,789	438,447
Interest expense	(812,310)	-	(812,310)
Total nonoperating revenue, net	<u>3,574,082</u>	<u>1,789</u>	<u>3,575,871</u>
CHANGE IN NET POSITION	<u>6,411,367</u>	<u>(76,973)</u>	<u>6,334,394</u>
NET POSITION - BEGINNING OF YEAR	<u>84,808,777</u>	<u>2,225,626</u>	<u>87,034,403</u>
NET POSITION - END OF YEAR	<u>\$ 91,220,144</u>	<u>\$ 2,148,653</u>	<u>\$ 93,368,797</u>

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

CHEROKEE METROPOLITAN DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2019

	Water and Wastewater Fund	Golf Course Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 12,663,026	\$ 1,022,797
Cash payments to suppliers for goods and services	(4,836,943)	(506,650)
Cash payments to employees for services	(2,335,890)	(508,037)
Net cash provided by operating activities	<u>5,490,193</u>	<u>8,110</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Change in due from other funds	<u>210,437</u>	<u>(85,007)</u>
Net cash provided by (used in) noncapital financing activities	<u>210,437</u>	<u>(85,007)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions - tap fees	3,731,822	-
Miscellaneous income	436,658	1,789
Purchase of capital assets	(773,866)	(37,643)
Principal paid on debt	(1,315,390)	-
Interest paid on debt	(866,354)	-
Net cash provided by (used in) capital and related financing activities	<u>1,212,870</u>	<u>(35,854)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>217,912</u>	<u>-</u>
Net cash provided by investing activities	<u>217,912</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,131,412	(112,751)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>10,093,086</u>	<u>216,225</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>17,224,498</u></u>	<u><u>103,474</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 2,837,285	\$ (78,762)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,561,560	88,234
Effects of changes in operating assets and liabilities:		
Accounts receivable	(310,431)	3,080
Prepaid expense	16,972	1,308
Accounts payable	274,919	(7,511)
Accrued expenses	64,085	206
Inventories	-	1,555
Customer deposits	45,803	-
Net cash provided by operating activities	<u><u>\$ 5,490,193</u></u>	<u><u>\$ 8,110</u></u>

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

CHEROKEE METROPOLITAN DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2019

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original & Final</u>	<u>Actual</u>	
REVENUE			
Fees	\$ 135,000	\$ 136,007	\$ 1,007
Total Revenue	<u>135,000</u>	<u>136,007</u>	<u>1,007</u>
EXPENDITURES			
Lighting	<u>131,000</u>	<u>121,840</u>	<u>9,160</u>
Total Expenditures	<u>131,000</u>	<u>121,840</u>	<u>9,160</u>
NET CHANGE IN FUND BALANCE	4,000	14,167	10,167
FUND BALANCE - BEGINNING OF YEAR	<u>142,139</u>	<u>152,050</u>	<u>9,911</u>
FUND BALANCE - END OF YEAR	<u>\$ 146,139</u>	<u>\$ 166,217</u>	<u>\$ 20,078</u>

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

CHEROKEE METROPOLITAN DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
PARKS FUND
For the Year Ended December 31, 2019

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
REVENUE				
Fees	\$ 168,000	\$ 168,000	\$ 175,908	\$ 7,908
Conservation Trust funds	110,000	110,000	137,748	27,748
Interest/miscellaneous income	2,500	2,500	2,556	56
Total Revenues	<u>280,500</u>	<u>280,500</u>	<u>316,212</u>	<u>35,712</u>
EXPENDITURES				
Parks, landscape and open space	221,728	221,728	174,480	47,248
Capital outlay	40,000	114,000	82,381	31,619
Total Expenditures	<u>261,728</u>	<u>335,728</u>	<u>256,861</u>	<u>78,867</u>
NET CHANGE IN FUND BALANCE	<u>18,772</u>	<u>(55,228)</u>	<u>59,351</u>	<u>114,579</u>
FUND BALANCE - BEGINNING OF YEAR	<u>140,838</u>	<u>140,838</u>	<u>171,982</u>	<u>31,144</u>
FUND BALANCE - END OF YEAR	<u>\$ 159,610</u>	<u>\$ 85,610</u>	<u>\$ 231,333</u>	<u>\$ 145,723</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CHEROKEE METROPOLITAN DISTRICT NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and organization - Cherokee Metropolitan District (District) is a political subdivision of the State of Colorado. The District converted from Cherokee Water and Sanitation District on May 11, 1992. On May 11, 1992, Cimarron Hills Street Improvement District merged into Cherokee Metropolitan District. The District provides water and wastewater services and parks to residents of the District.

The District financial statements are prepared in accordance with the U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). A summary of the significant accounting policies used in the preparation of those financial statements follows.

Reporting entity - The District has no component units for which either discrete or blended presentation is required. The inclusion or exclusion of component units is based on a determination of the elected official's financial accountability to their constituents, and whether the financial reporting entity follows the same accountability. Further, the financial statements of the reporting entity should enable the reader to distinguish between the primary government (including its blended component units) and discretely presented component units. The criteria used for determining whether an entity should be included, either blended or discretely presented, includes but is not limited to fiscal dependency, imposition of will, legal standing, and the primary recipient of services.

Government-wide and fund financial statements

Government- wide financial statements - The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between governmental and business-type activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities are financed to a significant extent by fees and charges.

The statement of activity demonstrates the degree to which direct expenses of a given function

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include 1) fees and charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

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

Measurement focus, basis of accounting and financial statement presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. On an accrual basis, property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financial sources.

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Those revenues susceptible to accrual are interest revenue and charges for services. Specific ownership taxes collected and held by the county at year-end on behalf of the District are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the accrual criteria are met. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

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 reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Parks Fund - The Parks Fund is accounted for as a special revenue fund. It is used to account for monies received by the District for the purpose of making necessary repairs and improvements to the District's parks.

The District reports the following major proprietary funds:

Water and Wastewater Enterprise Fund - The Water and Wastewater Enterprise Fund is used for activities of providing and processing water and wastewater.

Golf Course Enterprise Fund - The Golf Course Enterprise Fund is used to account for the operations of the golf course.

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

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

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as the program revenue include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenues include all taxes.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Deposits and investments - Cash and cash equivalents include cash on hand and in the bank, money market funds are short-term investments with original maturities of three months or less from the date of acquisition, including restricted cash and investments. Investments are stated at fair value.

Receivables - All receivables are reported to their gross value and, when appropriate, are reduced by the estimated portion that is expected to be uncollectible.

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Inventories and prepaid items - Inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Due to and from other funds - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. In the fund financial statements, these receivables and payables are classified as "due from other funds" or "due to other funds". In the government-wide financial statements, all internal balances have been substantially eliminated.

Restricted cash and investments - The use of certain cash investments of the District is restricted. These cash and investment items are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is restricted by third party agreements.

Capital assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g. street lights, signs and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

If proprietary fund assets are constructed, interest is capitalized on the assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

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

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Buildings, improvements, vehicles, and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Street Lights	5-10 years
Park Improvements	10 years
Improvements	5-40 years
Buildings	40 years
Equipment	5-20 years
Transmission	5-50 years
Water Rights	50 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 change in net position.

Deferred outflows and inflows of resources - Deferred outflow and inflow of resources are a consumption or acquisition of net assets that is applicable to a future reporting period. The District does not have any of these items.

Compensated absences - Employees earn sick leave at the rate of 6.67 hours per month. Employees hired before January 1, 2015 may accumulate up to 960 hours. Upon retirement or voluntary termination, an employee is paid for 50% of any hours in excess of 480 hours at the employee's current salary rate. Employees hired after January 1, 2015 may accumulate 80 hours of sick leave and are not paid for sick leave upon retirement or termination of service.

Employees earn vacation time in varying amounts based upon length of service. Employees are paid for unused vacation time upon termination.

The District has recorded a liability for compensated absences in the proprietary funds.

Long-term liabilities - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bonds payable are reported net of the applicable premium or discount. Issue costs are reported as expense in the period incurred.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund balance classification - The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

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

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

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

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Assigned - This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

Unassigned - This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The District typically uses *Restricted* fund balances first, followed by *Committed* resources, then *Assigned* resources as appropriate opportunities arise, but reserves the right to selectively spend *Unassigned* resources first to defer the use of these other classified funds.

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

Budget information - The District follows these procedures in establishing the budgetary data reflected in the financial statements:

A. In the fall, the District Manager submits to the Board of Directors, a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

B. Public hearings are conducted by the District to obtain taxpayer comments.

C. Prior to December 15, the budget is legally approved.

D. Any revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

E. Formal budgetary integration is employed as a management control device during the year for the governmental and proprietary funds.

F. The budget for the General and Parks Fund is adopted on a basis consistent with GAAP.

G. The budget for the Water and Wastewater and Gold Course Enterprise Funds is prepared on a basis of accounting other than GAAP, which is normal for proprietary funds. The primary differences are that bond proceeds are treated as a budget source, and capital expenditure and principal payments are treated as a budget use.

H. Budgeted amounts are as originally adopted or amended.

I. All annual appropriations lapse at the end of the year.

Supplementary appropriations approved by the Board of Directors modified the appropriation for the Golf Course Enterprise Fund from \$1,047,323 to \$1,047,900 to account for increased merchandise expenditures and for the Parks Fund from \$261,728 to \$335,728 for additional capital improvements to District parks.

**CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS

The District's deposits and investments consist of the following at December 31, 2019:

	Cash and cash equivalents	Restricted cash and cash equivalents	Total
Deposits	\$ 5,689,774	\$ 167,542	\$ 5,857,316
ColoTrust	8,274,008	3,335,787	11,609,795
Total	<u>\$ 13,963,782</u>	<u>\$ 3,503,329</u>	<u>\$ 17,467,111</u>

Reconciliation of cash and cash equivalents and investments to the government-wide financial statements at December 31, 2019, is:

	Cash and cash equivalents	Restricted cash and cash equivalents	Total
Governmental activities	\$ -	\$ 139,139	\$ 139,139
Business-type activities	13,963,782	3,364,190	17,327,972
Total	<u>\$ 13,963,782</u>	<u>\$ 3,503,329</u>	<u>\$ 17,467,111</u>

Cash equivalents - 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. The 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.

At December 31, 2019, the carrying amount of the District's deposits was \$5,857,316 and the bank balances were \$5,935,548. Of the bank balances, \$250,000 was covered by federal depository

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS AND INVESTMENTS- continued

insurance and \$5,685,548 falls under the provisions of the PDPA, which is collateralized in single institution pools.

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

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

Fair Value Measurements – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest level to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest level to unobservable inputs (level 3) as follows:

Level 1: Unadjusted quoted prices for identical instruments in active markets.

Level 2: Observable inputs other than quoted market prices.

Level 3: Valuation derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS AND INVESTMENTS- Continued

Investments measured at NAV:

COLOTRUST	
Total investments measured at NAV	<u>\$11,609,795</u>

Investments Measured at NAV:

Colorado Government Liquid Asset Trust (COLOTRUST) is an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes by state statutes. A twelve-member Board of Trustees, elected by the fund participants, is responsible for overseeing the management of COLOTRUST, including establishing operating standards and policies. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. Designated custodial banks provide safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. All securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury notes. COLOTRUST reports all investments as level 2 investments while the District's investment in COLOTRUST is reported at NAV. The District has no unfunded commitments or redemption restrictions on their investment in COLOTRUST. The separate audited financial statements of COLOTRUST are available on their website at www.colotrust.com.

Credit risk - State law limits investments to those described above. The District does not have an investment policy that would further limit its investment choices. As of December 31, 2019, all of the District's investments were invested in COLOTRUST. COLOTRUST has a credit quality rating of "AAAm", as determined by Standard & Poor Global Ratings.

Interest rate risk - State law limits investments with a maximum maturity date of no more than five years from the date of purchase. The District does not have an investment policy that would further limit its investment choices.

**CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2019, consisted of the following:

User fees	\$ 1,507,724
IGA	400,950
Other	182,201
Allowance for uncollectible accounts	(317,701)
Total	<u><u>\$ 1,773,174</u></u>

NOTE 4 - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due to/from other funds - Inter-fund receivable and payables are created in conjunction with the District's pooled cash, and are paid back within a reasonable time. As of December 31, 2019, inter-fund receivables and payables were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General Fund	\$ 173,914	\$ -
Parks Fund	98,886	-
Golf Course Fund	-	162,703
Water and Wastewater Fund	-	110,097
Total	<u><u>\$ 272,800</u></u>	<u><u>\$ 272,800</u></u>

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS

Governmental capital asset activity for the year ended December 31, 2019, was as follows:

	Balance at December 31, 2018	Additions	Disposals/ Retirements	Balance at December 31, 2019
Governmental activities:				
Capital assets, being depreciated:				
Street lights	\$ 55,960	\$ -	\$ -	\$ 55,960
Park improvements and equipment	896,863	82,381	-	979,244
Total capital assets being depreciated	952,823	82,381	-	1,035,204
Less accumulated depreciation for:				
Street lights	(55,960)	-	-	(55,960)
Park improvements and equipment	(405,726)	(60,759)	-	(466,485)
Total accumulated depreciation	(461,686)	(60,759)	-	(522,445)
Total capital assets, net	<u>\$ 491,137</u>	<u>\$ 21,622</u>	<u>\$ -</u>	<u>\$ 512,759</u>

Business-type capital asset activity for the year ended December 31, 2019, was as follows:

	Balance at December 31, 2018	Additions	Disposals/ Retirements	Balance at December 31, 2019
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,218,728	\$ -	\$ -	\$ 2,218,728
Water rights	39,985,305	-	-	39,985,305
CIP - TDS	-	175,957	-	175,957
Capital assets, being depreciated:				
Land improvements	1,020,020	-	-	1,020,020
Buildings	23,954,768	3,662	-	23,958,430
Equipment	11,382,301	98,339	-	11,480,640
Transmission	52,734,905	533,551	-	53,268,456
Total capital assets being depreciated	131,296,027	811,509	-	132,107,536
Less accumulated depreciation	(28,666,439)	(2,649,794)	-	(31,316,233)
Less: allowance for impaired assets	(565,000)	-	-	(565,000)
Total business-type activities capital assets, net	<u>\$ 102,064,588</u>	<u>\$ (1,838,285)</u>	<u>\$ -</u>	<u>\$ 100,226,303</u>

**CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS - continued

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities

Parks	\$ 60,759
Total depreciation expense - governmental activities	<u>\$ 60,759</u>

Business-type activities

Water and wastewater	\$ 2,561,560
Golf course	<u>88,234</u>
Total depreciation expense - business-type activities	<u>\$ 2,649,794</u>

As of December 31, 2019, an allowance of \$565,000 relating to challenged water rights remains unchanged in the current year. See (NOTE 12) relating to the District's contingencies relating to water litigation.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at December 31, 2019, consisted of the following:

Accounts payable - trade	\$ 720,726
Accounts payable - retainage	<u>8,797</u>
	<u>\$ 729,523</u>

NOTE 7 - LONG-TERM LIABILITIES

Colorado Water Resources and Power Development Authority loans

On November 8, 2006, the District entered into a loan agreement with the Colorado Water Resources and Power Development Authority (CWRPDA) for \$15,249,690 collateralized by pledge of net revenues from the Water and Wastewater Fund (revenues after deducting operation and maintenance expenses).

The 2006 loan is payable semiannually, with principal and interest payments of \$381,209 to \$526,461, including interest at 3.5% with the final payment due August 1, 2027. CWRPDA

**CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM LIABILITIES - continued

restructured the loan in May 2016 which reduced the District's debt service costs over the remainder of the term of the loan.

On May 13, 2016 CWRPDA refinanced the bonds that support the 2006 loan that they have issued to the District. As a result of this refinancing CWRPDA has agreed to provide interest credits which reduce the effective interest rate to approximately 3.0% on future payments on the 2006 note. No other payment terms were changed. The present value of this savings is \$745,046. The future minimum payments as noted below have been adjusted for the new interest payments.

On September 11, 2012, the District entered into a loan agreement with the CWRPDA for \$2,000,000, collateralized by a pledge of net revenues from the Water and Wastewater Fund (revenues after deducting operation and maintenance expenses). The 2012 loan requires principal and interest payments of \$22,500 to \$76,528, including interest at 2.0%. The loan is scheduled to mature August 1, 2033.

Annual debt service requirements to maturity for the loans are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 873,798	\$ 255,319
2021	897,625	235,947
2022	916,125	212,806
2023	940,047	192,428
2024	958,645	168,352
2025 - 2029	3,457,162	242,459
2030 - 2033	585,564	26,656
Total	<u>\$ 8,628,966</u>	<u>\$ 1,333,967</u>

Revenue bonds – The District issued Series 2012 revenue bonds (\$9,415,000 original issue) to provide funds for the purchase of water rights, well field development, water treatment and water conveyance infrastructure. The bond principal and interest are payable from the District's net pledged revenue, which includes all revenues of the water and wastewater system less operation and maintenance expenses. The bonds have an interest rate varying annually from two to four

**CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM LIABILITIES - continued

percent, interest payable semi-annually on February 1 and August 1 of each year.

Principal is payable annually on August 1, and mature no later than December 31, 2037. The District sought a level aggregate annual debt service level that takes into account prior financing with the CWRPDA (detailed above), both financing for wastewater infrastructure.

The District issued Series 2013 revenue bonds (\$9,660,000 original issue) to provide funds for the purchase of water rights, well field development, water treatment and water conveyance infrastructure. The bond principal and interest are payable from the District's net pledged revenue, which includes all water and wastewater system less operation and maintenance expenses. The bonds have an interest rate varying annually from two to four percent, interest payable semi-annually, principal payable annually on August 1 of each year and mature no later than December 31, 2033. The District sought a level aggregate annual debt service level that takes into account prior financing with the CWRPDA (detailed above), both financing for wastewater infrastructure.

The bonds are subject to redemption prior to maturity at the option of the District and are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption dates are August 1 of each year.

Annual debt service requirements to maturity for the Series 2012 and Series 2013 bonds are as follows:

December 31,

	<u>Principal</u>	<u>Interest</u>
2020	\$ 480,000	\$ 580,475
2021	500,000	569,351
2022	535,000	553,150
2023	565,000	535,338
2024	600,000	516,675
2025 - 2029	5,110,000	2,243,725
2030 - 2033	7,365,000	777,875
Total	<u>\$ 15,155,000</u>	<u>\$ 5,776,589</u>

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM LIABILITIES - continued

Changes in long-term liabilities

	Balance at December 31, 2018	Additions	Deductions	Balance at December 31, 2019	Amounts Due Within One Year
<u>Business-Type Activities:</u>					
2006 note payable	\$ 7,509,356	\$ -	\$ 741,267	\$ 6,768,089	\$ 757,382
2006 note issuance discount	(11,142)	-	(1,298)	(9,844)	-
2012 note payable	1,975,000	-	114,123	1,860,877	116,416
Total notes payable	<u>9,473,214</u>	<u>-</u>	<u>854,092</u>	<u>8,619,122</u>	<u>873,798</u>
2012 revenue bonds payable	\$ 7,470,000	\$ -	\$ 265,000	\$ 7,205,000	\$ 175,000
2013 revenue bonds payable	8,145,000	-	195,000	7,950,000	305,000
Bond issuance premium	591,316	-	55,631	535,685	-
Total revenue bonds payable	<u>16,206,316</u>	<u>-</u>	<u>515,631</u>	<u>15,690,685</u>	<u>480,000</u>
Total - Business-type activities long-term liabilities	<u>\$ 25,679,530</u>	<u>\$ -</u>	<u>\$ 1,369,723</u>	<u>\$ 24,309,807</u>	<u>\$ 1,353,798</u>

NOTE 8 - NET POSITION

The District has net position consisting of three components – net investment in capital assets, restricted and unrestricted.

Net investment in capital assets, net of related debt consists of capital assets net of accumulated depreciation reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2019, the District had invested in capital assets, net of related debt as follows:

Net investment in capital assets	
Capital assets, net of depreciation	\$100,739,062
Less: related debt	<u>(24,309,807)</u>
Total net investment in capital assets	<u>\$ 76,429,255</u>

Restricted net position is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - NET POSITION - continued

constitutional provisions or enabling legislation. As of December 31, 2019, the District had restricted net position as follows:

Restricted for:	
Capital projects, bond reserve, etc.	\$ 3,196,648
Parks	139,139
Customer deposits	167,542
TABOR	8,900
Total restricted net assets	<u>\$ 3,512,229</u>

NOTE 9 - PENSION

The District provides pension benefits through a 457b retirement plan. All full-time employees participate in the Plan. Employees are vested immediately. The District contributes 8% of an employee's wages to the Plan. The employee can choose to contribute but is not required to do so. Contributions for 2019 totaled \$189,114.

NOTE 10 - 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 carries commercial insurance for these risks of loss, including worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the past three fiscal years. Further, the District practices water supply planning and short term contracting to ensure adequate supplies for the community.

NOTE 11 - INTERGOVERNMENTAL AGREEMENTS (IGA)

The District has entered into several agreements with other governmental entities to provide water and wastewater treatment. These agreements stipulate various means to obtain, trade or provide water and wastewater services. These agreements are a normal part of the operations of the District and management believes that these agreements do not constitute significant long-term commitments of the District which would require additional disclosures. Specific information concerning the summaries of certain intergovernmental agreements can be obtained from the District.

**CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Litigation - The District is involved in several pending or threatened lawsuits, the most significant of which are described below. The District and its legal counsel estimate that the potential claims against the District not covered by insurance or accrued for, resulting in such litigation, would not materially affect the financial statements of the District.

Case No. 14CW3061 – Black Forest Augmentation Plan. Cherokee applied for approval of a plan for augmentation and for a change of water rights that Cherokee purchased in the Black Forest area. The change of water rights claims will allow Cherokee to withdraw the water associated with multiple ground water rights from a limited number of wells, thus increasing the efficiency of the operation and lowering development costs. The augmentation plan claim will allow Cherokee to develop the rights it has purchased to develop ground water in the Dawson aquifer, and will allow Cherokee to relinquish two percent (2%) of the withdrawals of water from other aquifers.

The District reached a stipulated agreement with a majority of opposers to this case and the Water Court State subsequently approved that agreement on June 22, 2017. Counsel is currently negotiating with PRI #2, LLC since they are the only remaining party to oppose to this case and management anticipates this case to be complete prior to the end of 2020.

Cherokee Wells 1-8 Declaratory Judgment Action. This case was initiated by Cherokee to resolve a dispute regarding the type and place of use of Cherokee's Wells 1 through 8. Cherokee is requesting the water court to review the decree for these water rights and the 1999 stipulation with the Upper Black Squirrel Creek Groundwater Management District (UBSCGMD) and the State of Colorado, and determine that these documents do not prohibit Cherokee from using the water rights for the originally contemplated purposes within the UBS Basin. Counsel for Cherokee has negotiated a tentative agreement with the UBSCGMD and has circulated a joint motion to enter the proposed decree to the other parties' counsel and is awaiting their response. Management anticipates that this case will be settled prior to the end of 2020.

Environmental Violations. The District is operating under a Compliance on Consent (CoC) order issued by the Colorado Department of Public Health and Environment (CDPHE) regarding the amount of Total Dissolved Solids (TDS) contained in treated effluent leaving the District's Water

CHEROKEE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - COMMITMENTS AND CONTINGENCIES - continued

Reclamation Facility (WRF) and being reintroduced into the groundwater in the Upper Black Squirrel Creek Basin. Based on this order Cherokee must comply with the State's TDS limits no later than September 2022. Cherokee's Board of Directors approved a plan to comply with the CoC and is evaluating certain technologies to construct the required infrastructure to comply with the CoC by the State imposed deadline.

The estimated cost of the needed infrastructure and associated construction is approximately \$40 million, which will require the District to obtain long-term financing to complete this project and operate the facilities.

NOTE 13 - AMENDMENT TO COLORADO CONSTITUTION

In November 1992, the voters of Colorado approved the Taxpayer's Bill of Rights (TABOR), which added Section 20 to Article X, of the Colorado Constitution. In general, TABOR restricts the ability of the State and local governments to increase revenues and spending, to impose taxes, and to issue debt and certain other types of obligations without voter approval. TABOR generally applies to the State and all local governments, including the District.

Fiscal year spending and revenue limits are determined based on prior year spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance. The District does not receive any mill levy revenue and is therefore not subject to the limitations of TABOR.

NOTE 14 - SUBSEQUENT EVENTS

COVID-19

On March 11, 2020 the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which may negatively impact operations of the District. Other financial impacts could occur, though such potential impact is unknown at this time.

Management has evaluated subsequent events through September 15, 2020, the date on which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

CHEROKEE METROPOLITAN DISTRICT
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
NET POSITION (NON-GAAP BUDGETARY BASIS)
WATER AND WASTEWATER ENTERPRISE FUND
For the Year Ended December 31, 2019

	Budgeted Amounts		Variance with Final Budget - Favorable (Unfavorable)
	Original-Final	Actual	
REVENUE			
Water sales	\$ 7,392,800	\$ 7,429,124	\$ 36,324
Sewer services	5,160,000	5,321,095	161,095
Water and wastewater tap fees	894,000	3,731,822	2,837,822
Grant revenue	15,000	-	(15,000)
Interest income	90,000	217,912	127,912
Miscellaneous income	142,400	436,658	294,258
TDS Surcharge	-	111,619	111,619
Total Revenues	<u>13,694,200</u>	<u>17,248,230</u>	<u>3,554,030</u>
EXPENSES			
Water system			
Purchased water	20,000	19,610	390
Pumping	987,000	921,212	65,788
Treatment	272,390	230,224	42,166
Transmission and distribution	1,341,470	1,203,416	138,054
Customer service	567,761	490,414	77,347
Total Water system	<u>3,188,621</u>	<u>2,864,876</u>	<u>323,745</u>
Wastewater system			
Treatment	1,875,050	1,569,589	305,461
Pretreatment	96,145	85,940	10,205
Collection	642,000	454,353	187,647
Customer service	155,530	127,641	27,889
Safety and technical services	454,735	385,155	69,580
Total Wastewater system	<u>3,223,460</u>	<u>2,622,678</u>	<u>600,782</u>
Other			
General and administrative	1,854,163	1,975,439	(121,276)
Capital expenditures	4,875,723	773,866	4,101,857
Debt principal payments	1,315,390	1,315,390	-
Interest and bond fees	865,853	812,310	53,543
Total Other	<u>8,911,129</u>	<u>4,877,005</u>	<u>4,034,124</u>
Total Expenses	<u>15,323,210</u>	<u>10,364,559</u>	<u>4,958,651</u>
EXCESS OF REVENUE OVER (UNDER)			
EXPENSES	<u>(1,629,010)</u>	<u>6,883,671</u>	<u>8,512,681</u>
GAAP Adjustments			
Capital expenditures		773,866	
Principal payments on bonds		1,315,390	
Depreciation		<u>(2,561,560)</u>	
Change in net position		<u>\$ 6,411,367</u>	

CHEROKEE METROPOLITAN DISTRICT
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
NET POSITION (NON-GAAP BUDGETARY BASIS)
GOLF COURSE ENTERPRISE FUND
For the Year Ended December 31, 2019

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
REVENUE				
Golf revenue	\$ 815,000	\$ 777,000	\$ 776,576	\$ (424)
Resale	235,000	243,500	243,141	(359)
Miscellaneous	-	1,000	1,789	789
Total Revenue	<u>1,050,000</u>	<u>1,021,500</u>	<u>1,021,506</u>	<u>6</u>
EXPENDITURES				
Operating expense	636,241	630,000	629,600	400
Resale expense	152,500	169,500	169,955	(455)
General and administrative	208,582	210,700	210,690	10
Capital expenditures	50,000	37,700	37,643	57
Total Expenses	<u>1,047,323</u>	<u>1,047,900</u>	<u>1,047,888</u>	<u>12</u>
EXCESS OF REVENUE OVER (UNDER)				
EXPENDITURES	<u>2,677</u>	<u>\$ (26,400)</u>	<u>\$ (26,382)</u>	<u>\$ 18</u>
GAAP Adjustments				
Capital expenditures			37,643	
Depreciation			<u>(88,234)</u>	
Change in net position			<u>\$ (76,973)</u>	

CHEROKEE METROPOLITAN DISTRICT
DEBT SERVICE COVERAGE AND RESERVE REQUIREMENTS
Year Ended December 31, 2019

Revenue	
Water sales	\$ 7,429,124
Sewer charges	5,321,095
Tap fees	3,731,822
TDS Surcharge	111,619
Interest income	217,912
Miscellaneous income	<u>436,658</u>
 TOTAL REVENUES	 <u>17,248,230</u>
 Operating Expenses	 10,024,553
Less: depreciation	<u>(2,561,560)</u>
 NET EXPENSES	 <u>7,462,993</u>
 NET REVENUES (PLEDGED PROPERTY)	 <u>\$ 9,785,237</u>
 Maximum debt service requirement	 <u>\$ 2,246,001</u>
 DEBT SERVICE COVERAGE FACTOR	 <u>435.67%</u>