

# **ARABIAN ACRES METROPOLITAN DISTRICT**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**



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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
**Arabian Acres Metropolitan District**  
Florissant, Colorado

We have audited the accompanying financial statements of Arabian Acres Metropolitan District ("District") as of and for the year ended December 31, 2018, and the related notes to the 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 ("US GAAP"); 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 an opinion 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 opinion.

## Opinion

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

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Arabian Acres Metropolitan District's basic financial statements. The supplementary information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## Prior Period Financial Statements

The financial statements of Arabian Acres Metropolitan District as of December 31, 2017 were audited by other auditors whose report dated August 1, 2018 expressed an unmodified opinion on those statements.

*BiggsKofford, P.C.*

Colorado Springs, Colorado  
July 23, 2019

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2018 AND 2017**

<b><u>ASSETS</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Current assets:		
Cash and investments	\$ 350,257	\$ 332,994
Cash and investments - restricted	117,000	60,000
Accounts receivable - County Treasurer	1,010	-
Accounts receivable, less allowance for doubtful accounts	25,839	19,979
Prepaid expense	6,409	7,160
Property taxes receivable	92,587	92,619
 Total current assets	 593,102	 512,752
Non-current assets:		
Capital assets, net	1,165,270	1,128,619
 Total non-current assets	 1,165,270	 1,128,619
 Total assets	 \$ 1,758,372	 \$ 1,641,371
 <b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,647	\$ 10,538
Accrued interest payable	4,767	4,979
Current maturities of bonds and notes payable	74,403	81,131
 Total current liabilities	 92,817	 96,648
Non-current liabilities:		
Bonds and notes payable, net of current portion	1,161,919	1,236,172
 Total liabilities	 1,254,736	 1,332,820
 <b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Deferred property taxes	92,587	92,619
 Total deferred inflows of resources	 92,587	 92,619
 <b><u>NET POSITION</u></b>		
Invested in capital assets, net	(4,730)	(248,684)
Restricted for:		
Emergency reserves	8,100	21,000
Debt service	117,000	60,000
Unrestricted	290,679	383,616
 Total net position	 411,049	 215,932
 Total liabilities and net position	 \$ 1,758,372	 \$ 1,641,371

The accompanying notes and independent auditor's report  
should be read with these financial statements.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES**  
**IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2018 and 2017**

<b><u>OPERATING REVENUES</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Water sales	\$ 337,046	\$ 315,717
Miscellaneous income	740	32,401
Total operating revenues	<u>337,786</u>	<u>348,118</u>
 <b><u>OPERATING EXPENSES</u></b>		
District management	65,270	48,823
Depreciation and amortization	31,648	32,336
Repairs and maintenance	7,378	21,164
Purchased services	6,434	5,356
Insurance	6,236	6,059
Utilities	8,177	5,581
ORC fees	36,734	34,375
Professional fees	19,138	19,590
Other expenses	11,771	15,602
Fees, dues and subscriptions	12,821	13,157
Total operating expenses	<u>205,607</u>	<u>202,043</u>
Operating income	<u>132,179</u>	<u>146,075</u>
 <b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Property taxes	103,365	134,423
Specific ownership taxes	11,901	11,888
Interest income	9,321	3,925
Interest expense	(61,649)	(73,511)
Net non-operating revenues	<u>62,938</u>	<u>76,725</u>
Change in net position	195,117	222,800
Total net position, beginning of year	<u>215,932</u>	<u>(10,789)</u>
Total net position, end of year	<u>\$ 411,049</u>	<u>\$ 215,932</u>

The accompanying notes and independent auditor's report  
should be read with these financial statements.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Cash received from user fees and surcharges	\$ 331,926	\$ 348,118
Cash paid for goods and services	(171,320)	(185,454)
Net cash provided by operating activities	160,606	162,664
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>		
Cash received from general and specific tax revenues	115,266	134,423
Other revenues	-	11,888
Net cash provided by non-capital financing activities	115,266	146,311
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Acquisitions and construction of capital assets	(68,300)	-
Payments on bonds and notes payable	(80,981)	(101,114)
Interest expense	(61,649)	(73,511)
Other	-	2,818
Net cash used in capital and related financing activities	(210,930)	(171,807)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Interest income	9,321	3,925
Net cash provided by investing activities	9,321	3,925
Net increase in cash and investments	74,263	141,093
Cash and investments, beginning of year	392,994	251,901
Cash and investments, end of year	<u>\$ 467,257</u>	<u>\$ 392,994</u>

The accompanying notes and independent auditor's report  
should be read with these financial statements.



**ARABIAN ACRES METROPOLITAN DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 132,179	\$ 146,075
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	31,648	32,336
Decrease (increase) in operating assets:		
Accounts receivable - County Treasurer	(1,010)	-
Accounts receivable	(5,859)	(18,840)
Prepaid expense	751	(1,101)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	3,109	4,387
Accrued interest payable	(212)	(193)
Net cash provided by operating activities	<u>\$ 160,606</u>	<u>\$ 162,664</u>

The accompanying notes and independent auditor's report  
should be read with these financial statements.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**1. DEFINITION OF REPORTING ENTITY**

Arabian Acres Metropolitan District ("District"), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Teller County, Colorado. The District was formed primarily for the purpose of acquiring the water system for the use and benefit of the District's residents, taxpayers and property owners, and for providing for the design, purchase, operation, maintenance and extension of the water system. The District may provide additional services or facilities that may be provided by a metropolitan district, within and outside the District's boundaries, in accordance with its Service Plan.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the District conform to accounting principles generally accepted in the United States of America ("US GAAP") as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

Basis of accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets.

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of accounting (continued)

The District distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sanitation services to its customers. Operating revenues consist of charges to customers for services provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

Use of estimates

The preparation of financial statements in accordance with US GAAP requires the District to use estimates and assumptions. Those estimates and assumptions affect the reported balances of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates.

Budgets and budgetary accounting

In accordance with state budget law, the District's board of directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The District's board of directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The appropriation is at the total fund expenditures level and lapses at year end.

The District incurred expenditures in excess of appropriations for the years ended December 31, 2018, which may be in violation of the local government budget law.

Cash and equivalents

For purposes of the statements of cash flows, the District considers cash and all highly liquid debt instruments with initial maturities of three months or less to be cash equivalents.

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Accounts receivable

Accounts receivable of the District consist of sewage collection service charges receivable including amounts due from the Department of Corrections. Accounts receivable are unsecured and are stated at the amount the District expects to collect. The District maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial condition of the District's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. As of December 31, 2018 and 2017, management considers accounts receivable to be fully collectible and no allowance for doubtful accounts has been recorded.

Property taxes

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of December 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put tax liens on individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred property taxes in the year they are levied and measurable. The deferred property taxes are recorded as revenue in the year they are available or collected. All property tax revenues are pledged for bond repayment.

Capital assets

Assets with useful lives exceeding one year and cost or fair value at contribution of \$1,000 or greater are capitalized. Purchased capital assets are recorded at historical cost. Contributed capital assets are recorded at their fair value on the date received. Additions, improvements, and other capital outlays that significantly extend the life of an asset are capitalized. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Water distribution system and equipment	40 years
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See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capital assets (continued)

Maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of depreciable property, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected as non-operating revenue or expense.

Water rights

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

Deferred inflows of resources

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. The District reports unavailable revenues from one source, property taxes. This amount is deferred and recognized as an inflow of resources in the year the property taxes are levied and budgeted for.

Revenues and expenses

Operating revenues consist of charges for services and are recognized as earned. Operating expenses include the cost of service, administrative expenses, and depreciation of assets and are recorded as incurred.

Net position

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.

Reclassifications

Certain prior period balances and amounts have been reclassified to conform with the current period financial statement presentation. These reclassifications have no effect on previously reported change in net position.

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**3. CASH AND INVESTMENTS**

Cash and equivalents and investments are reflected for the December 31, 2018 and 2017 statements of net position and statements of cash flows as follows:

	<b>2018</b>	<b>2017</b>
Cash and investments	\$ 350,257	\$ 332,994
Cash and investments - restricted	117,000	60,000
	<b>\$ 467,257</b>	<b>\$ 392,994</b>

The carrying amounts of cash and investments for the District, which equals fair value, as of December 31, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
Deposits with financial institutions	\$ 46,850	\$ 24,769
Investments	420,407	368,225
	<b>\$ 467,257</b>	<b>\$ 392,994</b>

Deposits with financial institutions

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

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

At December 31, 2018, the District had cash deposits with a bank balance of \$47,070 and a carrying balance of \$46,850. At December 31, 2017, the District had cash deposits with a bank balance of \$24,769 and a carrying balance of \$24,769.

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**3. CASH AND INVESTMENTS (CONTINUED)**

Investments

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

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

Colorado revised statutes limit investment maturities to five years or less unless otherwise formally approved by the board of directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

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

- Obligations of the US and certain US government agency securities
- Certain international agency securities
- General obligation and revenue bonds of US local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- Certain money market funds
- Guaranteed investment contracts
- \* Local government investment pools

*Fair value measurement and application*

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**3. CASH AND INVESTMENTS (CONTINUED)**

Investments (continued)

*Fair value measurement and application (continued)*

As of December 31, 2018, the District had the following investments:

<b>Investments</b>	<b>Maturity</b>	<b>Fair Value</b>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 420,407</u>

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust ("COLOTRUST" or "Trust"), an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs. The Trust is an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in US Treasury securities and repurchase agreements collateralized by US Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's.

See independent auditor's report.



**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**4. CAPITAL ASSETS**

District capital asset activity for the year ended December 31, 2018 and 2017 is as follows:

	Balance 01/01/18	Additions	Dispositions	Balance 12/31/18
Capital assets, not being depreciated:				
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Water rights	172,588	-	-	172,588
Construction in progress	-	68,299	-	68,299
Total not being depreciated	<u>273,588</u>	<u>68,299</u>	<u>-</u>	<u>341,887</u>
Capital assets, being depreciated:				
Water distribution system and equipment	<u>1,265,931</u>	<u>-</u>	<u>-</u>	<u>1,265,931</u>
Total capital assets, being depreciated	<u>1,265,931</u>	<u>-</u>	<u>-</u>	<u>1,265,931</u>
Less accumulated depreciation:				
Water distribution system and equipment	<u>(410,900)</u>	<u>(31,648)</u>	<u>-</u>	<u>(442,548)</u>
Total accumulated depreciation	<u>(410,900)</u>	<u>(31,648)</u>	<u>-</u>	<u>(442,548)</u>
Capital assets, net	<u><u>\$1,128,619</u></u>	<u><u>\$ 36,651</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,165,270</u></u>

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**4. CAPITAL ASSETS (CONTINUED)**

	<u>Balance 01/01/17</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance 12/31/17</u>
Capital assets, not being depreciated:				
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Water rights	<u>172,588</u>	<u>-</u>	<u>-</u>	<u>172,588</u>
Total not being depreciated	<u>273,588</u>	<u>-</u>	<u>-</u>	<u>273,588</u>
Capital assets, being depreciated:				
Water distribution system and equipment	<u>1,264,828</u>	<u>1,103</u>	<u>-</u>	<u>1,265,931</u>
Total being depreciated	<u>1,264,828</u>	<u>1,103</u>	<u>-</u>	<u>1,265,931</u>
Less accumulated depreciation:				
Water distribution system and equipment	<u>(378,564)</u>	<u>(32,336)</u>	<u>-</u>	<u>(410,900)</u>
Total depreciation	<u>(378,564)</u>	<u>(32,336)</u>	<u>-</u>	<u>(410,900)</u>
Capital assets, net	<u><u>\$1,159,852</u></u>	<u><u>\$ (31,233)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,128,619</u></u>

Depreciation expense for the years ended December 31, 2018 and 2017 totaled \$31,648 and \$32,336, respectively.

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

**5. LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term obligations of the District during the year ended December 31, 2018 and 2017:

	<u>Balance 01/01/18</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance 12/31/18</u>	<u>Due within one year</u>
2007 Series Bonds	\$ 1,230,000	\$ -	\$ 60,000	\$ 1,170,000	\$ 65,000
Notes payable	75,130	-	8,981	66,149	9,230
Judgments payable	<u>12,173</u>	<u>-</u>	<u>12,000</u>	<u>173</u>	<u>173</u>
	<u>\$ 1,317,303</u>	<u>\$ -</u>	<u>\$ 80,981</u>	<u>\$ 1,236,322</u>	<u>\$ 74,403</u>
	<u>Balance 01/01/17</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance 12/31/17</u>	<u>Due within one year</u>
2007 Series Bonds	\$ 1,285,000	\$ -	\$ 55,000	\$ 1,230,000	\$ 60,000
Note payable	83,109	-	7,979	75,130	12,173
Judgments payable	<u>50,308</u>	<u>-</u>	<u>38,135</u>	<u>12,173</u>	<u>8,958</u>
	<u>\$ 1,418,417</u>	<u>\$ -</u>	<u>\$ 101,114</u>	<u>\$ 1,317,303</u>	<u>\$ 81,131</u>

2007 Series Bonds

On April 4, 2007, the District issued \$1,425,000 of water revenue refunding bonds, series 2007 secured by water revenues and property tax revenues; \$455,000 were issued as serial bonds and \$970,000 were issued as term bonds. The serial bonds carry interest rates of 4.05% to 4.40% per annum and mature between December 1, 2014 and December 1, 2021. The term bonds carry interest rate of 5.00% per annum and mature on December 1, 2030. The term bonds are subject to mandatory sinking fund redemption in prescribed amounts before the maturity dates.

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**5. LONG-TERM OBLIGATIONS (CONTINUED)**

2007 Series Bonds (continued)

The District is required to maintain a debt service reserve account to be used for the payment of principal and interest of its series 2007 revenue bonds in the event that the District has not provided the Trustee with sufficient funds to make the required payment. The District lacks the required reserve account balance at December 31, 2018.

Following is a summary of the District's future debt service requirements of the series 2007 revenue bonds:

<u>Year ending December 31,</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total</u>
2019	\$ 65,000	\$ 57,202	\$ 122,202
2020	65,000	54,408	119,408
2021	70,000	51,580	121,580
2022	75,000	48,500	123,500
2023	80,000	44,750	124,750
2024-2028	455,000	160,250	615,250
2029-2030	360,000	30,750	390,750
	<u>\$1,170,000</u>	<u>\$ 447,440</u>	<u>\$ 1,617,440</u>

Notes payable

On August 1, 2015, the District entered into a loan in the amount of \$94,701 in order to ensure an adequate water supply. The note payable to National Rural Water Association Revolving Loan Fund ("NRWA RLF") is due in monthly installments of \$924 with a stated interest rate of 3.00% per annum, maturing on July 1, 2025. The note is secured with an interest in the assets of the District in the amount of the principle balance.

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**5. LONG-TERM OBLIGATIONS (CONTINUED)**

Notes payable (continued)

Following is a summary of the District's future debt service requirements of the note payable to NRWA RLF:

<u>Year ending December 31,</u>	<u>Note Principal</u>	<u>Note Interest</u>	<u>Total</u>
2019	\$ 9,230	\$ 1,859	\$ 11,089
2020	9,511	1,578	11,089
2021	9,800	1,289	11,089
2022	10,098	991	11,089
2023	10,406	684	11,090
2024-2025	17,104	431	17,535
	<u>\$ 66,149</u>	<u>\$ 6,832</u>	<u>\$ 72,981</u>

Judgement payable

On August 20, 2014, the District entered into a joint settlement agreement that was accepted and approved by the District Court on September 12, 2014, with two vendors related to nonpayment of outstanding invoices in the amount of \$113,542. The liability, which accrues interest at 8.00% per annum, is being repaid using a special assessment on the property holders of the District. The balance was \$173 as of December 31, 2018.

**6. NET POSITION**

The District has net position consisting of three components - invested in capital assets, net of related debt; restricted; and unrestricted.

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**6. NET POSITION (CONTINUED)**

Invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, plus unspent debt proceeds, and reduced by outstanding balances of bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2018, the District had an investment in capital assets, net of related debt calculated as follows:

Capital assets, net of accumulated depreciation	\$ 1,165,270
Revenue bonds payable	<u>(1,170,000)</u>
	<u>\$ (4,730)</u>

Restricted assets include net assets that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net assets as of December 31, 2018 as follows:

Restricted for emergency reserves (see Note 8)	<u>\$ 8,100</u>
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Unrestricted net assets consist of net assets that do not meet the definition of invested in capital, net of related debt or restricted net assets.

**7. RISK MANAGEMENT**

Except as provided in the Colorado Governmental Immunity Act, as amended, the District may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to volunteers or contractors; and natural disasters. The District carries commercial insurance for some of these risks of loss. The remaining risks of loss are retained by the District. There were no significant changes in coverage during the years ended December 31, 2018 or 2017.

**8. TAX, SPENDING AND DEBT LIMITATIONS**

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights ("TABOR"), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments within the State of Colorado.

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

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**8. TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)**

Spending and revenue limits are determined based on the prior fiscal year spending adjusted for allowable increases 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 requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. For the year ended December 31, 2018, management used 3% of revenues to calculate the reserve amount.

The Districts' management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, will likely require judicial interpretation.

**9. SUBSEQUENT EVENT**

Subsequent to year end, the District entered into a loan contract not to exceed \$404,000; bearing interest of 1.85% per annum; maturing in May 2029. This loan is expected to be used primarily for capital improvements.

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See independent auditor's report.

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## **SUPPLEMENTARY INFORMATION**

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET COMPARED TO ACTUAL - CASH BASIS**  
**YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual	Favorable (Unfavorable) Variance
<b><u>OPERATING REVENUES</u></b>			
Water sales	\$ 317,620	333,363	\$ 15,743
Miscellaneous income	-	740	740
 Total revenues	 317,620	 334,103	 16,483
<b><u>OPERATING EXPENDITURES</u></b>			
District management	50,000	65,270	(15,270)
Repairs and maintenance	20,000	7,378	12,622
Purchased services	15,750	6,434	9,316
Insurance	7,500	6,236	1,264
Utilities	4,500	8,177	(3,677)
ORC fees	37,000	36,734	266
Professional fees	46,700	19,138	27,562
Other expenses	16,726	11,771	4,955
Fees, dues and subscriptions	4,750	12,821	(8,071)
Capital outlay	-	68,300	(68,300)
Contingency	5,000	-	5,000
 Total operating expenditures	 207,926	 242,259	 (34,333)
<b><u>NON-OPERATING REVENUES AND EXPENDITURES</u></b>			
Property taxes	92,619	103,365	(10,746)
Specific ownership taxes	9,800	10,890	(1,090)
Interest income	4,320	9,321	(5,001)
Principle payments	(68,958)	(80,981)	12,023
Interest expense	(61,884)	(61,861)	(23)
 Total non-operating revenues and expenditures	 (24,103)	 (19,266)	 (4,837)
 Excess (deficit) of revenue over expenditures - budgetary basis	 \$ 85,591	 \$ 72,578	 \$ (13,013)

See independent auditor's report.

**ARABIAN ACRES METROPOLITAN DISTRICT**  
**RECONCILIATION OF AMOUNTS FROM US GAAP BASIS TO CASH BASIS**  
**YEAR ENDED DECEMBER 31, 2018**

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The accompanying supplementary Schedule of Revenues and Expenditures - Budget Compared to Actual on page 23 presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of differences in revenues and expenditures for the year ended December 31, 2018 is presented below.

Total revenue per financial statements (operating and non-operating revenue)		\$ 462,373
Less:		
Revenue accruals and non-cash adjustments at December 31, 2018		(4,694)
<hr/>		
Total actual revenue and receipts per the budget		<u>\$ 457,679</u>
Total expenses and capital expenditures per financial statements		\$ 267,256
Add:		
Expense, interest, and capital expenditure accruals and non-cash adjustments at December 31, 2018		213
Capital outlay		68,299
Principal payments on long-term debt		80,981
<hr/>		
Less:		
Depreciation expense		(31,648)
<hr/>		
Total actual expenses and capital expenditures per the budget		<u>\$ 385,101</u>

See independent auditor's report.