

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2018

with

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southshore Metropolitan District No. 1
Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Southshore Metropolitan District No. 1 (the District), as of and for the year ended December 31, 2018, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and each major fund of Southshore Metropolitan District No. 1, as of December 31, 2018, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

I

Fiscal Focus Partners, LLC

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, 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. 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Fiscal Focus Partners, LLC

Greenwood Village, Colorado
July 29, 2019

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

BALANCE SHEET/STATEMENT OF NET POSITION -

GOVERNMENTAL FUNDS

December 31, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 36,305	\$ -	\$ 36,305	\$ -	\$ 36,305
Prepaid expenses	6,484	-	6,484	-	6,484
Due from District No. 2	-	159,344	159,344	-	159,344
Capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,264,638</u>	<u>19,264,638</u>
Total Assets	<u>\$ 42,789</u>	<u>\$ 159,344</u>	<u>\$ 202,133</u>	<u>19,264,638</u>	<u>19,466,771</u>
LIABILITIES					
Accounts payable	\$ 11,221	\$ 159,344	\$ 170,565	-	170,565
Long-term liabilities:					
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>902,183</u>	<u>902,183</u>
Total Liabilities	<u>11,221</u>	<u>159,344</u>	<u>170,565</u>	<u>902,183</u>	<u>1,072,748</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Nonspendable:					
Prepays	6,484	-	6,484	(6,484)	-
Restricted:					
Emergencies	4,065	-	4,065	(4,065)	-
Unassigned	<u>21,019</u>	<u>-</u>	<u>21,019</u>	<u>(21,019)</u>	<u>-</u>
	<u>31,568</u>	<u>-</u>	<u>31,568</u>	<u>(31,568)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 42,789</u>	<u>\$ 159,344</u>	<u>\$ 202,133</u>		
Net Position:					
Net investment in capital assets				18,362,455	18,362,455
Restricted for:					
Emergencies				4,065	4,065
Unrestricted				<u>27,503</u>	<u>27,503</u>
Total Net Position				<u>\$ 18,394,023</u>	<u>\$ 18,394,023</u>

The notes to the financial statements are an integral part of these statements.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ 35,859	\$ -	\$ 35,859	\$ -	\$ 35,859
Directors fees	2,600	-	2,600	-	2,600
Insurance	6,971	-	6,971	-	6,971
Legal	43,434	-	43,434	-	43,434
Miscellaneous expenses	1,658	-	1,658	-	1,658
Irrigation water and electric	43,607	-	43,607	-	43,607
Landscape maintenance	1,180	-	1,180	-	1,180
Payroll taxes	198	-	198	-	198
Capital improvements	-	4,885,443	4,885,443	(4,885,443)	-
Total Expenditures	135,507	4,885,443	5,020,950	(4,885,443)	135,507
GENERAL REVENUES					
Transfer from District No. 2	164,414	4,885,443	5,049,857	-	5,049,857
Total General Revenues	164,414	4,885,443	5,049,857	-	5,049,857
NET CHANGES IN FUND BALANCES	28,907	-	28,907	(28,907)	
CHANGE IN NET POSITION				4,914,350	4,914,350
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	2,661	-	2,661	13,477,012	13,479,673
END OF YEAR	\$ 31,568	\$ -	\$ 31,568	\$ 18,362,455	\$ 18,394,023

The notes to the financial statements are an integral part of these statements.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2018

	Original <u>Budget</u>	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Transfer from District No. 2	\$ 137,498	\$ 150,000	\$ 164,414	\$ 14,414
Total Revenues	<u>137,498</u>	<u>150,000</u>	<u>164,414</u>	<u>14,414</u>
EXPENDITURES				
Accounting and audit	30,000	35,900	35,859	41
Directors fees	8,800	8,800	2,600	6,200
Insurance	8,000	8,000	6,971	1,029
Legal	35,000	41,602	43,434	(1,832)
Miscellaneous expenses	1,000	1,000	1,658	(658)
Irrigation water and electric	35,000	35,000	43,607	(8,607)
Landscape maintenance	15,000	15,000	1,180	13,820
Payroll taxes	693	693	198	495
Emergency reserves	4,005	4,005	-	4,005
Total Expenditures	<u>137,498</u>	<u>150,000</u>	<u>135,507</u>	<u>14,493</u>
NET CHANGE IN FUND BALANCE	-	-	28,907	28,907
FUND BALANCE:				
BEGINNING OF YEAR	-	-	2,661	2,661
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,568</u>	<u>\$ 31,568</u>

The notes to the financial statements are an integral part of these statements.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2018

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Southshore Metropolitan District No. 1 (the “District”), located in Arapahoe County, Colorado, (the “County”), conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized in February 2002, as a quasi-municipal corporation established under the State of Colorado Special District Act. The District was created in conjunction with Southshore Metropolitan District No. 2 to provide for streets, sanitation and water facilities, parks and recreation and other public improvements. The District was established as the Operating District and Southshore Metropolitan District No. 2 as the Taxing District. The purpose of the Taxing District is to provide funding to the Operating District for construction, operation and maintenance of facilities and improvements. The Taxing District has also issued debt to finance public improvements. The District's primary revenues are property taxes collected by District No. 2. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, which amended* GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which provides guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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 pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2018

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from 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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental 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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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 current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2018

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 not accounted for and reported in another fund.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of 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 budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

In November 2018, the District amended its total appropriations in the General Fund from \$137,498 to \$150,000 primarily due to unbudgeted expenses.

Assets, Liabilities and Net Position:

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2018, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2018

Interfund Balances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”. These amounts are eliminated in the Statement of Net Position.

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

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

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2018.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2018

Property Taxes

Property taxes may be levied by the District's Board of Directors. Any levy would be based on assessed valuations determined by the County Assessor generally as of January 1 of each year. Any levy would be normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. Any taxes would be payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District No. 2 which then funds the operating expenses of the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

The District did not levy any taxes for collection in 2018.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

The nonspendable fund balance in the General Fund in the amount of \$6,484 represents prepaid expenditures.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2018

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$4,065 of the General Fund balance has been restricted in compliance with this requirement.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all other funds can report negative amounts.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2018

Note 2: Cash and Investments

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

Statement of Net Position:	
Cash and investments	\$ <u>36,305</u>
Total	\$ <u>36,305</u>

Cash and investments as of December 31, 2018 consist of the following:

Deposits with financial institutions	\$ <u>36,305</u>
Total	\$ <u>36,305</u>

Deposits:

Custodial Credit Risk

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

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

Investments:

Investment Valuation

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; Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

The District had no recurring fair value measurements as of December 31, 2018.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2018

Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

The District has no investments that are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

As of December 31, 2018, the District had no investments.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2018, follows:

<u>Governmental Type Activities:</u>	<u>Balance 1/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2018</u>
<u>Capital assets not being depreciated:</u>				
Parks, landscaping	\$ 1,789,873	\$ -	\$ -	\$ 1,789,873
Construction in progress	<u>12,589,322</u>	<u>4,885,443</u>	<u>-</u>	<u>17,474,765</u>
Total capital assets not being depreciated	<u>\$ 14,379,195</u>	<u>\$ 4,885,443</u>	<u>\$ -</u>	<u>\$ 19,264,638</u>

Upon completion and acceptance, all fixed assets except for parks and landscaping will be conveyed by the District to other local governments. The District will be responsible for landscape maintenance.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2018

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2018, is as follows:

Advance and Reimbursement Agreement

In July 2012, the District entered into an Advance and Reimbursement Agreement (the “Agreement”), with Southshore Recovery Acquisition, LLC, (the “Investor”). The District anticipated that it would not have sufficient funds to make the payment of its operations and maintenance expenses; therefore pursuant to this Agreement the Investor would advance funds to meet any shortfalls. The advances earned interest from the date of the advance at the rate of 8% compounded annually. On August 5, 2015, this Agreement was amended and restated to eliminate the interest provision on the repayment of the advances. Per the Service Plan, interest shall not be charged on any advances for operating and maintenance and capital project expenses.

The District has agreed to repay the Developer advances subject to the availability of funds and subject to annual appropriation. The obligation of the District to reimburse the Developer is not a multiple fiscal year obligation of the District. The term of this Agreement shall expire on November 30, 2032 and any amount of Advances remaining unpaid after such date shall be deemed to be forever discharged and satisfied in full. As of December 31, 2018, balances outstanding are \$370,000 for operating advances and \$532,183 for capital advances.

The following is an analysis of changes in long-term debt for the period ending December 31, 2018:

	Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018	Current Portion
Operating advances	\$ 370,000	\$ -	\$ -	\$ 370,000	\$ -
Capital advances	532,183	-	-	532,183	-
Total	<u>\$ 902,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 902,183</u>	<u>\$ -</u>

Debt Authorization

As of December 31, 2017, District No. 1 and District No. 2 (the “Districts”) had remaining combined voted debt authorization of \$0.00. The District’s Service Plan establishes a total combined general obligation debt limit for both Districts of \$33,033,000. In May 2018, the authorized electors of the District voted to increase the debt authorization by \$27,500,000. Such debt can be issued only if the Service Plan is amended or the District follows certain statutory procedures prior to issuance.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2018

Note 5: Related Party

One member of the Board of Directors is an employee of RainTree Investment Corporation (“RainTree”), which has significant ownership and/or investment interests in the property within the Districts. Two other directors are consultants, directly or indirectly, to Raintree. Management believes that all potential conflicts, if any, have been disclosed to the Secretary of State and the Board of Directors. Two members of the Board of Directors are employees of JR Engineering LLC, which is contracted as project manager for the construction of the capital infrastructure. In 2018, the District paid JR Engineering LLC, \$301,763 for services rendered.

Note 6: Agreements

Amended and Restated Intergovernmental Agreement – On December 2, 2004, and amended on May 11, 2007, the District entered into an agreement with Southshore Metropolitan District No. 2 (“District No. 2”), in which District No. 2 agrees to assign all revenue raised from all sources not pledged to District No. 2 debt to the District to offset the expenses of construction of public improvements and the costs of operation and maintenance of such public improvements. The District shall provide the operations and maintenance services and to maintain all necessary insurance in a manner deemed appropriate by the Districts and in compliance with applicable law. In 2018, the District received from District No. 2, \$164,414 for operations and maintenance and \$4,885,443 for capital improvements.

Acquisition and Reimbursement Agreement – On August 5, 2015, the District entered into an agreement with Richmond American Homes of Colorado, Inc. (“Richmond”). This allows Richmond to acquire and construct public improvements necessary for the development of Filing 11 and 13. Richmond may construct the improvements directly related to their subdivision and transfer to the District or to the City of Aurora. The District will reimburse Richmond for the total costs upon certification and transfer of the infrastructure improvements.

Metro District Improvements Escrow Agreement Filings 16 and 17 – On November 28, 2018, the District entered into an agreement with the Investor, Richmond, Toll Southwest, LLC, (“Toll”) and UMB Bank. The Investor has deposited \$6,061,693 from the sale of lots to Richmond and Toll into an escrow account. The funds used for the costs and expenses of the public improvements related to Filings 16 and 17. If any funds are used for this purpose, the District is to reimburse the Investor with any available funds. As of December 31, 2018, no funds were used by the District.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2018

Note 7: Tax, Spending and Debt Limitations

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

Spending and revenue limits are determined based on the prior year’s 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.

The District’s 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 require judicial interpretation.

In 2002, a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 8: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“Pool”) which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials’ liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2018

Note 9: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as bonds payable and accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;
- 3) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 4) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year Ended December 31, 2018

	<u>Original and Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Transfer from District No. 2	\$ 6,981,655	\$ 4,885,443	\$ (2,096,212)
Total Revenues	<u>6,981,655</u>	<u>4,885,443</u>	<u>(2,096,212)</u>
EXPENDITURES			
Capital improvements	<u>6,981,655</u>	<u>4,885,443</u>	<u>2,096,212</u>
Total Expenditures	<u>6,981,655</u>	<u>4,885,443</u>	<u>2,096,212</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.