

Encore on 34 Metropolitan District No. 1  
FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
December 31, 2016



**RECEIVED**

*By the Office of the State Auditor at 4:42 pm, Oct 11, 2017*

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
BASIC FINANCIAL STATEMENTS	
GOVERNMENTAL FUNDS BALANCE SHEET/ STATEMENT OF NET POSITION	6
STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES	7
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	8
NOTES TO FINANCIAL STATEMENTS	9
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – DEBT SERVICE FUND	18
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – CAPITAL PROJECTS FUND	19



REPORT OF INDEPENDENT CERTIFIED  
PUBLIC ACCOUNTANTS

Board of Directors  
Encore on 34 Metropolitan District No.1

***Report on the Financial Statements***

We have audited the accompanying basic financial statements of the governmental activities and the governmental funds of the Encore on 34 Metropolitan District No. 1 (the "District"), as of and for the year ended December 31, 2016, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with auditing standards generally accepted in the United States of America as established by the *American Institute of Certified Public Accountants* ("US GAAS").

We conducted our audit in accordance with US GAAS. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether these financial statements are free of material misstatement.

An audit includes 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 on the Financial Statements***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental funds of the Encore on 34 Metropolitan District No. 1, as of December 31, 2016, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Supplementary Information*

Our audit was conducted with the purpose of forming an opinion on the basic financial statements of the Encore on 34 Metropolitan District No. 1 taken as a whole. The supplementary information on pages 18 and 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management of the District and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to our auditing procedures applied in the audit of the financial statements and certain other additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

#### *Management's Discussion and Analysis*

The Board of Directors has omitted the Management's Discussion and Analysis information 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 part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the 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.

*Marc, James and Associates, PC*

Highlands Ranch, Colorado  
September 29, 2017

*BASIC FINANCIAL STATEMENTS*

Encore on 34 Metropolitan District No.1

GOVERNMENTAL BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2016

	General Fund	Adjustments	Statement of Net Position
<b>ASSETS</b>			
Cash and cash equivalents	\$ 47,905	\$ -	\$ 47,905
Due from District No. 2	4,958	-	4,958
Due from District No. 3	4	-	4
Capital assets	-	2,192,415	2,192,415
<b>Total assets</b>	<b><u>\$ 52,867</u></b>	<b>2,192,415</b>	<b>2,245,282</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 12,413	-	\$ 12,413
Long-term liabilities			
Due in more than one year	-	1,349,940	1,349,940
<b>Total liabilities</b>	<b>12,413</b>	<b>1,349,940</b>	<b>1,362,353</b>
<b>FUND BALANCE/NET POSITION</b>			
Fund balances			
Restricted	23,600	(23,600)	-
Unassigned	16,854	(16,854)	-
<b>Total fund balance</b>	<b><u>40,454</u></b>	<b><u>(40,454)</u></b>	<b><u>-</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 52,867</u></b>	<b>(40,454)</b>	<b>12,413</b>
<b>Net position</b>			
Restricted		23,600	23,600
Unrestricted		859,329	859,329
<b>Total net position</b>		<b><u>\$ 882,929</u></b>	<b><u>\$ 882,929</u></b>

The accompanying notes are an integral part of these financial statements

Encore on 34 Metropolitan District No.1

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

Year ended December 31, 2016

	Governmental Funds			Adjustments	Statement of Activities
	General Fund	Debt Service	Total		
<b>EXPENDITURES</b>					
Operations					
Accounting and audit	\$ 8,736	\$ -	\$ 8,736	\$ -	\$ 8,736
District management	3,000	-	3,000	-	3,000
Legal	7,648	-	7,648	-	7,648
Miscellaneous	559	-	559	-	559
Debt Service					
Developer reimbursement	-	990,000	990,000	(990,000)	-
Interest	-	-	-	136,954	136,954
Total expenditures	19,943	990,000	1,009,943	(853,046)	156,897
<b>GENERAL REVENUES</b>					
Intergovernmental					
Transfer from District No. 2	790,096	-	790,096	-	790,096
Transfer from District No. 3	605	-	605	-	605
Interest	1,515	-	1,515	-	1,515
Total general revenues	792,216	-	792,216	-	792,216
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	772,273	(990,000)	(217,727)	853,046	635,319
<b>OTHER SOURCES AND USES</b>					
Transfer to Debt Service Fund	(990,000)	-	(990,000)	990,000	-
Transfer from General Fund	-	990,000	990,000	(990,000)	-
Total other sources and uses	(990,000)	990,000	-	-	-
CHANGE IN FUND BALANCE	(217,727)	-	(217,727)	217,727	-
CHANGE IN NET POSITION				635,319	635,319
<b>FUND BALANCE/NET POSITION</b>					
Beginning of the year	258,181	-	258,181	(10,571)	247,610
End of the year	\$ 40,454	\$ -	\$ 40,454	\$ 842,475	\$ 882,929

The accompanying notes are an integral part of these financial statements

Encore on 34 Metropolitan District No.1

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

Year ended December 31, 2016

	Original and Final Budget	Actual	Variance
<b>REVENUES:</b>			
Transfer from District No. 2	\$ 786,115	\$ 790,096	\$ 3,981
Transfer from District No. 3	608	605	(3)
Interest	-	1,515	1,515
	<u>786,723</u>	<u>792,216</u>	<u>5,493</u>
<b>EXPENDITURES</b>			
<b>OPERATIONS</b>			
Accounting and audit	8,000	8,736	736
District management	-	3,000	3,000
Legal	15,000	7,648	(7,352)
Insurance	2,600	-	(2,600)
Landscape maintenance	15,000	-	(15,000)
Directors' fees	500	-	(500)
Contingency	47,264	-	(47,264)
Miscellaneous	1,233	559	(674)
	<u>89,597</u>	<u>19,943</u>	<u>(69,654)</u>
<b>REVENUES IN EXCESS OF EXPENDITURES</b>	<b>697,126</b>	<b>772,273</b>	<b>75,147</b>
<b>OTHER SOURCES AND USES</b>			
Transfer to Debt Service Fund	(725,000)	(990,000)	(265,000)
	<u>(725,000)</u>	<u>(990,000)</u>	<u>(265,000)</u>
<b>CHANGE IN FUND BALANCE</b>	<b><u>\$ (27,874)</u></b>	<b><u>(217,727)</u></b>	<b><u>\$(189,853)</u></b>
<b>FUND BALANCE</b>			
Beginning balance		<u>258,181</u>	
Ending balance		<u><u>\$ 40,454</u></u>	

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Encore on 34 Metropolitan District No. 1 (the “District”) conform to the accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to governmental entities. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the District.

*1. Reporting Entity*

The District was formed, in connection with Encore on 34 Metropolitan District No. 2 (“District No. 2”), and Encore on 34 Metropolitan District No. 3 (“District No. 3”), pursuant to the Colorado Special District Act, Article 1 of Title 32 of the Colorado Revised Statutes, in November 2014, as a quasi-municipal corporation and a political subdivision of the State of Colorado. The District is governed by a seven-member Board of Directors. The District is located in the Town of Johnstown, Larimer County, Colorado.

The District was formed to provide for the planning, design, acquisition, construction, installation, relocation, redevelopment and financing of public improvements for a Planned Unit Development referred to as Encore (the “Development”) from proceeds of debt issued by the District. The District is designated as the Operating District, District No. 2 is the Commercial District and District No. 3 is the Residential District. As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local government entities. The District has no component units as defined by Governmental Accounting Standards Board (“GASB”), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

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

*2. Measurement Focus and Financial Reporting Framework*

*Government-Wide Financial Statements*

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on the accrual basis of accounting related to the *governmental-type activities* of the District, which rely to a significant extent on property, specific ownership taxes and charges for services. The Statement of Activities demonstrates the degree to which expenses of the *governmental-type activities* are supported by property, specific ownership taxes and charges for services.

*Governmental Fund Financial Statements*

The governmental fund financial statements are prepared 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 if the revenues are collectible within the current period or soon thereafter to pay liabilities of the current period. For that purpose, the District considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

2. *Measurement Focus and Financial Reporting Framework - continued*

*Governmental Funds*

The District maintains three individual governmental funds. The governmental funds information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the general fund, debt service fund and the capital projects fund, all of which are considered to be major funds.

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds,

The *Capital Projects Fund* accounts for the resources that is restricted or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets. For 2016, there was no activity in the Capital Projects Fund.

3. *Cash and Cash Equivalents*

The District considers cash and cash equivalents to include cash on hand, unrestricted demand deposits and money market accounts, as applicable.

4. *Fair Value of Financial Instruments*

The District's financial instruments include cash, accounts receivable and accounts payable. The District estimates that the fair value of these financial instruments as of December 31, 2016, do not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

5. *Capital Assets*

The District's capital assets consist of infrastructure and on-going construction in process and are reported in the District's government-wide financial statements. The District's capital assets, as applicable, are recorded at cost, if purchased or constructed.

The District has a capitalization policy of \$5,000. The District's Board of Directors has the option to capitalize certain items less than \$5,000 in certain circumstances. Upon completion and acceptance, the infrastructure will be conveyed to other local governmental entities. Subsequent to conveyance, it is anticipated that the District will not be responsible for maintenance and repairs

Until conveyance the cost of normal maintenance and repairs, if any, that do not add to the value of, or materially extend the life of, the related capital asset, are charged to expense as incurred.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

6. *Use of Estimates*

The preparation of financial statements in conformity with US GAAP involves the use of District management's estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses as applicable, during the reporting period. These estimates are based upon District management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates.

NOTE B – BUDGET INFORMATION

The District's annual budget is prepared on a Non-GAAP basis for all of the District's funds. An annual appropriated budget is adopted at the total fund expenditure level and the annual appropriations lapse at the end of the District's fiscal year.

The District conforms to the following procedures, in accordance with the State of Colorado Revised Statutes, in the establishment of the budgetary information reflected in the accompanying financial statements.

On or before October 15, the District's Manager submits a proposed budget for the subsequent fiscal year to the District's Board of Directors. The budget sets forth all proposed expenditures for administration, operations, maintenance, debt service, and capital projects for the budget year; all anticipated revenues for the budget year; estimated beginning and ending fund balances; actual figures for the prior fiscal year and projected figures through the end of the current year; and a written budget message describing the important features of the budget.

Following receipt of the proposed budget, the District publishes notice of the hearing at which the adoption of the proposed budget will be considered, a statement that the proposed budget is available for inspection, and that any interested elector may file objections to the proposed budget prior its adoption. The budget hearing is held at a regular or special Board of Directors' meeting.

Following the budget hearing, the Board of Directors adopts the budget and makes appropriations for the budget year. If applicable, the District also certifies a mill levy for collection in the budget year. Because the District certifies a mill levy, the adoption of the budget, appropriations and certification of the mill levy must occur on or before December 15. Expenditures in excess of the amounts appropriated for a Fund or transfer of moneys between Funds must be approved by the Board of Directors in the same manner as the adoption of the budget.

State of Colorado Statutes requires a balanced budget. For 2016, the District's General Fund budgeted expenditures and net other sources and uses exceeded budgeted revenue by \$27,874. In addition, the District's budgeted Debt Service Fund expenditures exceeded the budgeted transfer from the General Fund by \$225,000.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE C – CASH AND INVESTMENTS

The Colorado Public Deposit Protection Act (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions 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 uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits.

As of December 31, 2016, all of the District’s deposits were either insured by the FDIC or held in eligible depositories.

At December 31, 2016, the District had \$46,602 invested in the Colorado Local Government Liquid Trust (“Trust”), 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 \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of the U.S. government agencies. The District’s investments are in the COLOTRUST PLUS+ portfolio. COLOTRUST is rated AAAM by Standard & Poor’s.

The District’s has certain investments which are measured at fair value on a recurring basis and are categorized within the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset’s fair value: 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. The fair value measurement of the District’s investment in COLOTRUST at December 31, 2016 is valued using Level 2 inputs.

NOTE D – CAPITAL ASSETS

The District’s capital assets for the year ended December 31, 2016 are as follows:

	Balance December 31, 2015	Additions	Disposals	Balance December 31, 2016
Capital assets				
Construction in progress	\$ <u>2,192,415</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,192,415</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE E- LONG-TERM DEBT

Per the terms of the Consolidated Service Plan, all long-term debt is expected to be repaid by limited taxes imposed and collected for no longer than the maximum debt mill levy imposition term of residential properties and at a mill levy no higher than the commercial maximum debt mill levy for commercial properties.

*Amended and Restated Advance and Reimbursement Agreement - Capital Costs*

In December 2015, the District, District No. 2 and District No. 3 (the "Districts") entered into the Amended and Restated Advance and Reimbursement Agreement ("Capital Advance Agreement") with Miracle on 34, LLC (the "Developer"), pursuant to which the Developer agreed to advance funds in an amount not to exceed \$66,000,000, in one or more installments. Under the terms of the Amended and Restated Advance and Reimbursement Agreement, the funds are to be used exclusively for capital improvements within the Development as set forth in the annual budgets of the Districts. In addition, the Developer may agree to renew its obligation hereunder on an annual basis, in which case the obligation termination date shall be amended to no earlier than December 31 of the subsequent year.

Under the Capital Advance Agreement, advances accrue interest at a simple interest rate of 8% from the date of each advance and any unpaid accrued interest will be added to the principal in the event that the advances are subsequently refunded by subordinate debt.

	December 31, 2015	Additions	Payments	December 31, 2016	Due within One Year
Advance	\$ 2,192,415	\$ -	\$ (990,000)	\$ 1,292,415	\$ -
Accrued interest	10,571	136,954	-	147,525	-
	<u>\$ 2,202,986</u>	<u>\$ 136,954</u>	<u>\$ (990,000)</u>	<u>\$ 1,439,940</u>	<u>\$ -</u>

*Amended and Restated Advance and Reimbursement Agreement - Operations and Maintenance Costs*

In December 2015, the Districts entered into the Amended and Restated Advance and Reimbursement Agreement - Operations and Maintenance Costs, (Operations Advance Agreement") with the Developer, pursuant to which the Developer agreed to advance funds in an amount not to exceed \$500,000, in one or more installments. Under the terms of the Operations Advance Agreement, the funds are to be used for administrative, operations and maintenance costs within the Development as set forth in the annual budgets of the Districts. In addition, the Developer may agree to renew its obligation hereunder on an annual basis, in which case the obligation termination date shall be amended to no earlier than December 31 of the subsequent year.

Upon request of the Developer, the Districts hereby agree to issue to or at the direction of the Developer one or more promissory notes to evidence the repayment obligation. The promissory note will have a maturity date of December 31 of the calendar year in which the promissory note is issued. If the Districts lack sufficient funds to pay such promissory note(s) at maturity, the Districts agree to issue new promissory notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE E- LONG-TERM DEBT - *continued*

*Amended and Restated Advance and Reimbursement Agreement - Operations and Maintenance Costs - continued*

Under the Operations Advance Agreement, advances accrue interest at a simple interest rate of the current Federal Reserve Prime Rate plus 2% from the date of each advance and any unpaid accrued interest will be added to the principal.

As of December 31, 2016, there were no advances outstanding under the Operations Advance Agreement.

*Debt Authorization*

Under the terms of the District's Service Plan, the District cannot issue debt in excess of \$66,000,000.

As of December 31, 2016, the District had \$66,000,000 remaining in electoral authorization.

In the future, the District may issue a portion or all of the remaining authorized, but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area. However, the amount and timing of any debt issuances, if any, are not determinable.

NOTE F - RELATED PARTIES

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. District management believes that all potential conflicts, if any, have been properly disclosed.

NOTE G – FUND BALANCE/NET POSITION

*Fund Balance*

The District utilizes the fund balance presentation as required under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are categorized as non-spendable, restricted, committed, assigned or unassigned, as applicable.

*Non-spendable* – represents amounts that cannot be spent because they are either in non-spendable form or legally required to remain intact,

*Restricted* – represents amounts with external constraints placed on the use of these resources or imposed by enabling legislation,

*Committed* – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the District's Board of Directors. Committed resources cannot be used for any other purpose unless the District's Board of Directors removes or changes the specific use by the same type of action used to commit those amounts, either by resolution or by ordinance,

*Assigned* – represents amounts that the District intends to use for specific purposes as expressed by the District's Board of Directors or a District official delegated the authority to assign amounts,

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G – FUND BALANCE/NET POSITION - *continued*

*Unassigned* – represents the residual classification for the general fund or deficit balances in other funds, as applicable.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balances classifications could be used.

As of December 31, 2016, the District’s General Fund balance consisted of the following:

Fund balances:	
Restricted	\$ 23,600
Unassigned	<u>16,854</u>
Total fund balance	<u>\$ 40,454</u>

*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 or 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 is available, the District will use the most restrictive net position first.

NOTE H – 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 and debt limitations which apply to the State of Colorado and all local governments.

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 calculation of the fiscal year spending limits may require judicial interpretation.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE I – MANAGEMENT’S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District’s financial statements and accompanying footnotes in conformity with generally accepted accounting principles requires management of the District to evaluate transactions and events subsequent to the balance sheet date involving the District. Management has evaluated the subsequent transactions and events of the District through September 29, 2017, which is the date the financial statements and accompanying footnotes were available for issuance.

NOTE J – RECONCILIATION OF GOVERNMENT-WIDE AND GOVERNMENTAL FUND FINANCIAL STATEMENTS

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column which reconciles the differences between the government-wide and fund financial statements as follows:

Capital assets reflected in the Statement of Net Position are not financial resources in the governmental funds and accordingly are not reported in the governmental funds,	\$	2,192,415
Long-term liabilities are not due and payable in the current period and, therefore, are not reflected in the governmental funds,		1,202,415
Interest is recognized in the governmental funds as paid; therefore accrued interest is only recognized on the Statement of Net Position.		147,525

The Statements of Governmental Funds Revenues, Expenditures and Changes in Fund Balance/Statement of Net Activities includes an adjustment column which reconciles the differences between the government-wide and fund financial statements as follows:

The repayment of debt by the District is reflected as an expenditure in the governmental funds; however the repayment is reflected as a reduction of the long-term liabilities in the Statement of Net Position,	\$	990,000
Interest is recognized in the governmental funds as paid. For the Statement of Activities interest expense is recognized as incurred.		136,953

*SUPPLEMENTARY INFORMATION*

Encore on 34 Metropolitan District No.1

SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL- DEBT SERVICE FUND

Year ended December 31, 2016

	Original and Final Budget	Actual	Variance
EXPENDITURES			
DEBT SERVICE			
Developer reimbursement	\$ 950,000	\$ 990,000	\$ 40,000
OTHER SOURCES			
Transfer from General Fund	<u>725,000</u>	<u>990,000</u>	<u>265,000</u>
CHANGE IN FUND BALANCE	<u>\$ (225,000)</u>	-	<u>\$ 225,000</u>
FUND BALANCE			
Beginning balance		<u>-</u>	
Ending balance		<u>\$ -</u>	

Encore on 34 Metropolitan District No.1

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

Year ended December 31, 2016

	Original and Final Budget	Actual	Variance
REVENUES:			
Developer advance	\$2,200,000	\$ -	\$2,200,000
EXPENDITURES			
CAPITAL OUTLAY			
Capital improvements	<u>2,200,000</u>	<u>-</u>	<u>\$2,200,000</u>
CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
FUND BALANCE			
Beginning balance		<u>          </u>	
Ending balance		<u>\$ -</u>	