

Spring Mesa Metropolitan District
Financial Statements
Year Ended December 31, 2016
with
Independent Auditors' Report



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Independent Auditor's Report

Board of Directors
Spring Mesa Metropolitan District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Spring Mesa Metropolitan District as of and for the year ended December 31, 2016, 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 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 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 the governmental activities and each major fund of the Spring Mesa Metropolitan District as of December 31, 2016, and the respective changes in financial position 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

Management has omitted the 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 are not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary 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 financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain 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 information is fairly stated in all material respects in relation to the financial statements as a whole. The continuing disclosure as listed in the Table of Contents has not been audited and accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "L. Paul Goedecke P.C.".

L. Paul Goedecke, P.C.
August 28, 2017

Spring Mesa Metropolitan District

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 116,620	\$ -	\$ -	\$ 116,620	\$ -	\$ 116,620
Cash and investments - restricted	7,440	136,845	-	144,285	-	144,285
Receivable County Treasurer	-	2,944	-	2,944	-	2,944
Property taxes receivable	-	417,841	-	417,841	-	417,841
Due from other funds	(12,756)	2,316	10,440	-	-	-
Prepaid expenses	5,464	-	-	5,464	-	5,464
Bond Insurance, net of amortization	-	-	-	-	33,931	33,931
Total Assets	<u>116,768</u>	<u>559,946</u>	<u>10,440</u>	<u>687,154</u>	<u>33,931</u>	<u>721,085</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding	-	-	-	-	172,338	172,338
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>172,338</u>	<u>172,338</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 116,768</u>	<u>\$ 559,946</u>	<u>\$ 10,440</u>	<u>\$ 687,154</u>		
LIABILITIES						
Accounts payable	\$ 12,831	\$ -	\$ -	\$ 12,831	-	12,831
Prepaid assessments	141	-	-	141	-	141
Accrued interest on bonds	-	-	-	-	23,175	23,175
Long-term liabilities						
Due within one year	-	-	-	-	155,000	155,000
Due in more than one year	-	-	-	-	7,471,709	7,471,709
Total Liabilities	<u>12,972</u>	<u>-</u>	<u>-</u>	<u>12,972</u>	<u>7,649,884</u>	<u>7,662,856</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	-	417,841	-	417,841	-	417,841
Total Deferred Inflows of Resources	<u>-</u>	<u>417,841</u>	<u>-</u>	<u>417,841</u>	<u>-</u>	<u>417,841</u>
FUND BALANCE						
Nonspendable:						
Prepays	5,464	-	-	5,464	(5,464)	-
Restricted:						
Emergencies	7,440	-	-	7,440	(7,440)	-
Debt service	-	142,105	-	142,105	(142,105)	-
Capital Projects	-	-	10,440	10,440	(10,440)	-
Assigned:						
Project maintenance	70,000	-	-	70,000	(70,000)	-
Unassigned:	20,892	-	-	20,892	(20,892)	-
Total Fund Balances	<u>103,796</u>	<u>142,105</u>	<u>10,440</u>	<u>256,341</u>	<u>(256,341)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 116,768</u>	<u>\$ 559,946</u>	<u>\$ 10,440</u>	<u>\$ 687,154</u>		
NET POSITION						
Restricted for:						
Emergencies					7,440	7,440
Debt service					142,105	142,105
Unrestricted:					(7,336,819.00)	(7,336,819)
Total Net Position (Deficit)					<u>\$ (7,187,274)</u>	<u>\$ (7,187,274)</u>

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

Spring Mesa Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES For the Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Legal	\$ 11,864	\$ -	\$ -	\$ 11,864	\$ -	\$ 11,864
Accounting and audit	9,692	-	-	9,692	-	9,692
Insurance	6,684	-	-	6,684	-	6,684
Elections	1,981	-	-	1,981	-	1,981
Miscellaneous expenses	5,472	-	-	5,472	-	5,472
Projects-maintenance/replacement	41,684	-	-	41,684	-	41,684
Landscape maintenance	147,446	-	-	147,446	-	147,446
Irrigation repair	13,844	-	-	13,844	-	13,844
Snow removal	5,750	-	-	5,750	-	5,750
Utilities	27,816	-	-	27,816	-	27,816
District Management	20,223	-	-	20,223	-	20,223
Administrative costs	10,666	-	-	10,666	-	10,666
Bond principal	-	150,000	-	150,000	(150,000)	-
Bond interest	-	273,292	-	273,292	7,988	281,280
Capital expenditures	-	-	1,560	1,560	-	1,560
Bond insurance amortization	-	-	-	-	1,215	1,215
Paying agent fees	-	167	-	167	-	167
Treasurer fees	-	6,699	-	6,699	-	6,699
	<u>303,122</u>	<u>430,158</u>	<u>1,560</u>	<u>734,840</u>	<u>(140,797)</u>	<u>594,043</u>
PROGRAM REVENUES						
Assessment revenues	<u>272,448</u>	<u>-</u>	<u>-</u>	<u>272,448</u>	<u>-</u>	<u>272,448</u>
Total Program Revenues	<u>272,448</u>	<u>-</u>	<u>-</u>	<u>272,448</u>	<u>-</u>	<u>272,448</u>
Net Program Income (Expense)	<u>(30,674)</u>	<u>(430,158)</u>	<u>(1,560)</u>	<u>(462,392)</u>	<u>140,797</u>	<u>(321,595)</u>
GENERAL REVENUES						
Property taxes	-	449,658	-	449,658	-	449,658
Specific ownership taxes	-	32,717	-	32,717	-	32,717
Interest income	<u>30</u>	<u>1,978</u>	<u>-</u>	<u>2,008</u>	<u>-</u>	<u>2,008</u>
Total General Revenues	<u>30</u>	<u>484,353</u>	<u>-</u>	<u>484,383</u>	<u>-</u>	<u>484,383</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(30,644)	54,195	(1,560)	21,991		
OTHER FINANCING SOURCES (USES)						
Interfund transfers	<u>(12,000)</u>	<u>-</u>	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(12,000)</u>	<u>-</u>	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN FUND BALANCE						
	(42,644)	54,195	10,440	21,991	(21,991)	
CHANGE IN NET POSITION						
					162,788	162,788
FUND BALANCE/NET POSITION						
BEGINNING OF YEAR	<u>146,440</u>	<u>87,910</u>	<u>-</u>	<u>234,350</u>	<u>(7,584,412)</u>	<u>(7,350,062)</u>
END OF YEAR	<u>\$ 103,796</u>	<u>\$ 142,105</u>	<u>\$ 10,440</u>	<u>\$ 256,341</u>	<u>\$ (7,443,615)</u>	<u>\$ (7,187,274)</u>

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

Spring Mesa Metropolitan District

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

For the Year Ended December 31, 2016

	Original/Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Assessments	\$ 261,120	\$ 272,448	\$ 11,328
Interest Income	<u>-</u>	<u>30</u>	<u>30</u>
 Total Revenues	 <u>261,120</u>	 <u>272,478</u>	 <u>11,358</u>
 EXPENDITURES			
Legal	15,000	11,864	3,136
Accounting and audit	15,000	9,692	5,308
Insurance	6,000	6,684	(684)
Elections	15,000	1,981	13,019
Miscellaneous expenses	1,000	5,472	(4,472)
Projects-maintenance/replacement	70,000	41,684	28,316
Pond maintenance	10,000	-	10,000
Landscape maintenance	50,000	147,446	(97,446)
Irrigation repair	15,000	13,844	1,156
Snow removal	15,000	5,750	9,250
Utilities	25,000	27,816	(2,816)
District Management	25,000	20,223	4,777
Administrative costs	5,000	10,666	(5,666)
Emergency	8,010	-	8,010
Contingency	<u>139,015</u>	<u>-</u>	<u>139,015</u>
Total Expenditures	<u>414,025</u>	<u>303,122</u>	<u>110,903</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 (152,905)	 (30,644)	 122,261
 OTHER FINANCING (USES)			
Transfer to Capital Fund	<u>(12,000)</u>	<u>(12,000)</u>	<u>-</u>
 Total Other Financing (Uses)	 <u>(12,000)</u>	 <u>(12,000)</u>	 <u>-</u>
 CHANGE IN FUND BALANCE	 (164,905)	 (42,644)	 122,261
 FUND BALANCE - BEGINNING OF YEAR	 <u>164,905</u>	 <u>146,440</u>	 <u>(18,465)</u>
 FUND BALANCE - END OF YEAR	 <u>\$ -</u>	 <u>\$ 103,796</u>	 <u>\$ 103,796</u>

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

Spring Mesa Metropolitan District

Notes to Financial Statements December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Spring Mesa Metropolitan District, (“the District”), located in the City of Arvada, in Jefferson County, Colorado, 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 originally formed as the Eldorado Hills Metropolitan District in October 1990, as a quasi-municipal organization established under the State of Colorado Special District Act. The District legally changed its name to Spring Mesa Metropolitan District in March 2003. The District was established to finance and construct certain public infrastructure improvements that benefit the citizens of the District. The District's primary revenues are property taxes and assessments. 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 the GASB pronouncements, which provide 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.

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34.

Spring Mesa Metropolitan District

Notes to Financial Statements December 31, 2016

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.

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 in another fund.

Spring Mesa Metropolitan District

Notes to Financial Statements December 31, 2016

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

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.

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, 2016, 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.

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.

Spring Mesa Metropolitan District

Notes to Financial Statements December 31, 2016

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 has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 has one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

Original Issue Premium, Prepaid Debt Insurance and Deferred Loss and Refunding

The original issue premium and prepaid debt insurance from the Series 2015 Bonds are being amortized over the term of the bonds using the straight-line method. The deferred loss on refunding from the Series 2015 Bonds is being amortized over the term of the refunded bonds using the straight-line method. Accumulated amortization of original issue discount, prepaid debt insurance, and deferred loss on refunding amounted to \$13,310, \$1,266, and \$9,014, respectively, at December 31, 2016.

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.

Spring Mesa Metropolitan District

Notes to Financial Statements December 31, 2016

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.

Prior to the year ended December 31, 2010, the District conveyed all of the capital assets acquired with bond proceeds to the City of Arvada.

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 January 1 of each year. The levy is 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. The taxes are 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.

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.

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 \$5,464 represents prepaid insurance.

Spring Mesa Metropolitan District

Notes to Financial Statements
December 31, 2016

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.

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 \$7,440 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$142,105 is restricted for the payment of the debt service costs associated with the General Obligation Refunding Bonds Series 2015 (see Note 3).

The restricted fund balance in the Capital Projects Fund in the amount of \$10,440 is restricted for the payment of the costs for capital improvements within the District.

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.

The assigned fund balance in the General Fund represents the amount appropriated for project maintenance or repairs in the budget for the year ending December 31, 2017.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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.

Spring Mesa Metropolitan District

Notes to Financial Statements
December 31, 2016

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report 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. At December 31, 2016 the District did not have any amount to report in this category.

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.

Note 2: Cash and Investments

As of December 31, 2016, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 116,620
Cash and investments – restricted	<u>144,285</u>
	<u>\$ 260,905</u>

Cash and investments as of December 31, 2016 consist of the following:

Deposits with financial institutions	\$ 124,060
Investments – COLOTRUST	<u>136,845</u>
	<u>\$ 260,905</u>

Spring Mesa Metropolitan District

Notes to Financial Statements December 31, 2016

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 has the following recurring fair value measurements as of December 31, 2016:

An external investment pool that records its investments at fair value. The investment in COLOTRUST is categorized as a Level 2 Investment.

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 obligation 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

None of the District’s investments are subject to custodial or concentration of credit risk.

Spring Mesa Metropolitan District

Notes to Financial Statements
December 31, 2016

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, 2016, the District had the following investments:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s with a weighted average maturity of under 60 days, a Level 2 investment under the fair value hierarchy. COLOTRUST is an investment trust/joint ventures 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 trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes 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 U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2016, the District had \$136,845 invested in COLOTRUST.

Note 3: Long Term Debt

A description of the long-term obligations as of December 31, 2016, is as follows:

General Obligation Refunding Bonds, Series 2015 - On December 11, 2015 the District issued \$7,420,000 of General Obligation Refunding Bonds, Series 2015 (“Series 2015 Bonds”) for the purpose of refunding all of the District’s outstanding Convertible Capital Appreciation Limited Tax General Obligation Bonds Series 2006, and the Subordinate Limited Tax General Obligation Bonds, Series 2010 (“Refunded Bonds”), and paying the cost of issuance of the bonds. The Series 2015 Bonds bear interest between the rates of 2.0% - 4.25%, payable semiannually on each June 1 and December 1, commencing on December 1, 2015. The Series 2015 Bonds are due December 1, 2044, and are subject to a mandatory sinking fund redemption commencing on December 1, 2023.

The Series 2015 Bonds maturing on or after December 1, 2026 are subject to an early redemption at the option of the District, in whole or in integral multiples of \$5,000, in any order of maturity and in whole or partial maturity on December 1, 2025 at the redemption price equal to the par amount of each Series 2015 Bond plus accrued interest thereon to the date of redemption. The Series 2015 Bonds are payable from property taxes from an unlimited mill levy to be imposed upon all taxable property within the District.

Spring Mesa Metropolitan District

Notes to Financial Statements
December 31, 2016

As a result of the issuance of the Series 2015 Bonds, the Refunded Bonds are considered to be defeased and the liabilities have been removed from the governmental activities column of the statement of net position. The reacquisition price of the old debt exceeded the net carrying amount by \$181,352. This amount is recorded as a deferred outflow and is being amortized over the original remaining life of the refunded bonds. The refunding resulted in an economic gain of \$1,557,053 due to the average interest rate of the Series 2015 Bonds being lower than the Refunded Bonds.

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
General Obligation Bonds - Series 2015	\$ 7,420,000	\$ -	\$ 150,000	\$ 7,270,000	\$ 155,000
GO Bond - 2015 - Premium	<u>369,487</u>	-	<u>12,778</u>	<u>356,709</u>	-
	<u>\$ 7,789,487</u>	<u>\$ -</u>	<u>\$ 162,778</u>	<u>\$ 7,626,709</u>	<u>\$ 155,000</u>

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2015 Bonds.

	Principal	Interest	Total
2017	\$ 155,000	\$ 278,100	\$ 433,100
2018	160,000	275,000	435,000
2019	160,000	271,800	431,800
2020	165,000	267,000	432,000
2021	170,000	262,050	432,050
2022 - 2026	955,000	1,218,350	2,173,350
2027 - 2031	1,155,000	1,013,700	2,168,700
2032 - 2036	1,420,000	752,988	2,172,988
2037 - 2041	1,725,000	442,500	2,167,500
2042 - 2044	<u>1,205,000</u>	<u>95,563</u>	<u>1,300,563</u>
	<u>\$ 7,270,000</u>	<u>\$ 4,877,050</u>	<u>\$ 12,147,050</u>

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$10,357,848. The District has not budgeted to issue any additional debt in 2017. Per the District's Service Plan, the District cannot issue debt in excess of \$10,500,000 for capital costs.

Spring Mesa Metropolitan District

Notes to Financial Statements
December 31, 2016

Note 4: 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, of 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.

On November 4, 2003, 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 5 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.

Spring Mesa Metropolitan District

Notes to Financial Statements
December 31, 2016

Note 6: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

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

- 1) 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; and
- 2) 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

Spring Mesa Metropolitan District

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

For the Year Ended December 31, 2016

	Original/Final <u>Budget</u>	Actual	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 446,558	\$ 449,658	\$ 3,100
Specific ownership taxes	31,259	32,717	1,458
Interest income	<u>1,000</u>	<u>1,978</u>	<u>978</u>
 Total Revenues	 <u>478,817</u>	 <u>484,353</u>	 <u>5,536</u>
EXPENDITURES			
Bond principal	150,000	150,000	-
Bond interest	273,292	273,292	-
Paying agent fees	1,500	167	1,333
Treasurers' fees	<u>6,698</u>	<u>6,699</u>	<u>(1)</u>
 Total Expenditures	 <u>431,490</u>	 <u>430,158</u>	 <u>1,332</u>
 CHANGE IN FUND BALANCE	 47,327	 54,195	 6,868
 FUND BALANCE - BEGINNING OF YEAR	 <u>66,136</u>	 <u>87,910</u>	 <u>21,774</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 113,463</u>	 <u>\$ 142,105</u>	 <u>\$ 28,642</u>

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

Spring Mesa Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND
For the Year Ended December 31, 2016

	Original/Final <u>Budget</u>	Actual	Variance Favorable (Unfavorable)
REVENUES			
Homeowner Assessments	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Capital expenditures	<u>13,000</u>	<u>1,560</u>	<u>11,440</u>
Total Expenditures	<u>13,000</u>	<u>1,560</u>	<u>11,440</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,000)	(1,560)	11,440
OTHER FINANCING SOURCES			
Interfund transfers	<u>12,000</u>	<u>12,000</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>12,000</u>	<u>12,000</u>	<u>-</u>
CHANGE IN FUND BALANCE	(1,000)	10,440	11,440
FUND BALANCE - BEGINNING OF YEAR	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 10,440</u>	<u>\$ 10,440</u>

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

Spring Mesa Metropolitan District

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY General Obligation Bonds Series 2015

For the Year Ended December 31, 2016

**Interest Payable June 1 and December 1
Principal Due December 1**

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	155,000	278,100	433,100
2018	160,000	275,000	435,000
2019	160,000	271,800	431,800
2020	165,000	267,000	432,000
2021	170,000	262,050	432,050
2022	175,000	256,950	431,950
2023	185,000	251,700	436,700
2024	190,000	244,300	434,300
2025	200,000	236,700	436,700
2026	205,000	228,700	433,700
2027	215,000	220,500	435,500
2028	220,000	211,900	431,900
2029	230,000	203,100	433,100
2030	240,000	193,900	433,900
2031	250,000	184,300	434,300
2032	260,000	173,675	433,675
2033	270,000	162,625	432,625
2034	285,000	151,150	436,150
2035	295,000	139,038	434,038
2036	310,000	126,500	436,500
2037	320,000	114,400	434,400
2038	330,000	101,925	431,925
2039	345,000	89,050	434,050
2040	360,000	75,588	435,588
2041	370,000	61,538	431,538
2042	385,000	47,088	432,088
2043	400,000	32,050	432,050
2044	420,000	16,425	436,425
	<u>\$ 7,270,000</u>	<u>\$ 4,877,050</u>	<u>\$ 12,147,050</u>

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

Spring Mesa Metropolitan District

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2016

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2006	\$ 2,270,600	30.000	0.000	\$ 68,118	\$ 68,117	100.00%
2007	\$ 1,010,700	0.000	34.500	\$ 34,869	\$ 34,959	100.26%
2008	\$ 6,978,810	0.000	34.500	\$ 240,769	\$ 240,379	99.84%
2009	\$ 9,360,090	0.000	34.500	\$ 322,923	\$ 323,390	100.14%
2010	\$ 9,857,240	0.000	34.500	\$ 340,075	\$ 340,074	100.00%
2011	\$ 10,172,490	0.000	34.500	\$ 350,951	\$ 351,544	100.17%
2012	\$ 11,618,569	0.000	34.500	\$ 400,841	\$ 400,136	99.82%
2013	\$ 11,730,421	0.000	34.500	\$ 404,700	\$ 404,548	99.96%
2014	\$ 11,937,416	0.000	34.500	\$ 411,841	\$ 411,841	100.00%
2015	\$ 12,232,820	0.000	34.500	\$ 422,032	\$ 422,031	100.00%
2016	\$ 14,405,086	0.000	31.000	\$ 446,558	\$ 449,658	100.69%
Estimated for year ending December 31, 2017	\$ 14,408,303	0.000	29.000	\$ 417,841		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION – UNAUDITED

Spring Mesa Metropolitan District

TEN LARGEST OWNERS OF TAXABLE PROPERTY WITHIN THE DISTRICT

December 31, 2016

UNAUDITED

<u>Taxpayer Name</u>	<u>2016 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Public Service Co. of Colorado nka Xcel Energy	167,898	1.17%
Private Homeowner #1	66,537	0.46%
Private Homeowner #2	65,962	0.46%
Private Homeowner #3	65,526	0.45%
Private Homeowner #4	62,700	0.44%
Private Homeowner #5	62,333	0.43%
Private Homeowner #6	\$ 61,912	0.43%
Private Homeowner #7	61,690	0.43%
Private Homeowner #8	61,488	0.43%
Private Homeowner #9	61,182	0.42%
Total	<u>\$ 737,228</u>	<u>5.12%</u>

Spring Mesa Metropolitan District

ASSESSED VALUATION OF CLASSES OF PROPERTY IN THE DISTRICT

December 31, 2016

UNAUDITED

<u>Class</u>	<u>2016 Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>
Residential	\$ 14,234,676	98.79%
State Assessed	167,898	1.17%
Commercial	5,633	0.04%
Natural Resources	96	0.00%
Total	<u>\$ 14,408,303</u>	<u>100.00%</u>

NOTE

Percentage is based on a 2016 certified assessed valuation of \$14,408,303.

Spring Mesa Metropolitan District

SELECTED DEBT RATIOS OF THE DISTRICT

December 31, 2016

UNAUDITED

	<u>Amount</u>
Direct Debt (Consisting of the Bonds)	\$ 7,270,000
2016 Assessed Valuation	\$ 14,408,303
Direct Debt to 2016 Assessed Valuation	50.46%
2016 Statutory Actual Value	\$179,426,324
Direct Debt to 2016 Statutory Actual Value	4.05%