

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**Elbert County, Colorado**

**FINANCIAL STATEMENTS**  
**December 31, 2016**



**RECEIVED**

*By the Office of the State Auditor at 4:29 pm, Sep 29, 2017*



**SCHILLING & COMPANY, INC.**

*Certified Public Accountants*

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## **Independent Auditor's Report**

Board of Directors  
Elkhorn Ranch Metropolitan District No. 1  
Elbert County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Elkhorn Ranch Metropolitan District No. 1 (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 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 Elkhorn Ranch Metropolitan District No. 1 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 accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that governmental 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 financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*SCHILLING & COMPANY, INC.*

Highlands Ranch, Colorado  
September 26, 2017

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## **BASIC FINANCIAL STATEMENTS**

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF NET POSITION**  
**December 31, 2016**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments - unrestricted	\$ 97,768
Cash and investments - restricted	19
Receivable from county treasurer	4,559
Property taxes receivable	408,406
Other receivables	23,970
Prepays	2,488
Capital assets not being depreciated	240,000
Capital assets being depreciated, net	9,793
Total assets	<u>787,003</u>
<b>LIABILITIES</b>	
Accounts payable	4,908
Accrued interest payable	394,395
Bonds payable:	
Due within one year	295,000
Due in more than one year	7,630,000
Note payable:	
Due in more than one year	89,600
Developer advances payable:	
Due in more than one year	449,875
Interest on developer advances due in more than one year	114,457
Total liabilities	<u>8,978,235</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred property tax revenue	408,406
Total deferred inflows of resources	<u>408,406</u>
<b>NET POSITION</b>	
Net investment in capital assets:	(43,634)
Restricted for:	
Emergency reserves	2,200
Road improvements	284,370
Unrestricted	(8,842,574)
Total net position	<u>\$ (8,599,638)</u>

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

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital Grants</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>and</u>	<u>Change in Net</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Position</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 80,440	\$ -	\$ -	\$ -	\$ (80,440)
Interest and other costs on long-term debt	585,348	-	-	-	(585,348)
	<u>\$ 665,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(665,788)</u>
General revenues:					
Property taxes					352,502
Specific ownership taxes					58,991
Infrastructure support fees					8,250
Facility and road fees					74,360
Miscellaneous income					482
Net investment income					542
Total general revenues					<u>495,127</u>
Change in net position					(170,661)
Net position - beginning					<u>(8,428,977)</u>
Net position - ending					<u>\$ (8,599,638)</u>

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

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2016**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments - unrestricted	\$ 3,603	\$ -	\$ 94,165	\$ 97,768
Cash and investments - restricted	-	19	-	19
Receivable from county treasurer	402	4,157	-	4,559
Property taxes receivable	36,015	372,391	-	408,406
Other receivables	18,250	3,500	2,220	23,970
Prepays	2,488	-	-	2,488
Due from other funds	-	-	187,985	187,985
Total assets	\$ 60,758	\$ 380,067	\$ 284,370	\$ 725,195
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 3,533	\$ 1,375	\$ -	\$ 4,908
Due to other funds	-	187,985	-	187,985
Total liabilities	3,533	189,360	-	192,893
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred property tax revenue	36,015	372,391	-	408,406
Total deferred inflows of resources	36,015	372,391	-	408,406
<b>FUND BALANCES (DEFICIT)</b>				
Nonspendable:				
Prepaid expenditures	2,488	-	-	2,488
Spendable:				
Restricted for:				
Emergency reserves	2,200	-	-	2,200
Road improvements	-	-	284,370	284,370
Unrestricted				
Unassigned	16,522	(181,684)	-	(165,162)
Total fund balances (deficit)	21,210	(181,684)	284,370	123,896
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)</b>				
	\$ 60,758	\$ 380,067	\$ 284,370	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	249,793
Long-term liabilities are not due and payable in the current period and, therefore, are not in the funds:	
Bonds payable	(7,925,000)
Interest on bonds and note payable	(394,395)
Note payable	(89,600)
Developer advances	(449,875)
Interest on developer advances	(114,457)
Net position of governmental activities	\$ (8,599,638)

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

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT)**  
**GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 31,084	\$ 321,418	\$ -	\$ 352,502
Specific ownership taxes	5,202	53,789	-	58,991
Infrastructure support fees	8,250	-	-	8,250
Facility and road fees	-	45,500	28,860	74,360
Miscellaneous	482	-	-	482
Interest	78	464	-	542
Total revenues	<u>45,096</u>	<u>421,171</u>	<u>28,860</u>	<u>495,127</u>
<b>EXPENDITURES</b>				
Audit	4,300	-	-	4,300
County treasurer fees	932	9,630	-	10,562
Directors' fees	1,200	-	-	1,200
District management and accounting	42,144	-	-	42,144
Dues	320	-	-	320
Insurance and bonds	2,981	-	-	2,981
Legal	8,707	-	-	8,707
Repairs and maintenance	6,850	-	-	6,850
Support services	1,280	-	-	1,280
Miscellaneous	1,006	-	-	1,006
Debt service				
Bond principal	-	130,000	-	130,000
Bond interest	-	517,404	-	517,404
Paying agent fees	-	2,458	-	2,458
Total expenditures	<u>69,720</u>	<u>659,492</u>	<u>-</u>	<u>729,212</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(24,624)</u>	<u>(238,321)</u>	<u>28,860</u>	<u>(234,085)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advance	10,000	-	-	10,000
Transfer (from) to other funds	<u>(85,000)</u>	<u>85,000</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(75,000)</u>	<u>85,000</u>	<u>-</u>	<u>10,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	(99,624)	(153,321)	28,860	(224,085)
<b>FUND BALANCE (DEFICIT) - BEGINNING OF YEAR</b>	<u>120,834</u>	<u>(28,363)</u>	<u>255,510</u>	<u>347,981</u>
<b>FUND BALANCE (DEFICIT) - END OF YEAR</b>	<u>\$ 21,210</u>	<u>\$ (181,684)</u>	<u>\$ 284,370</u>	<u>\$ 123,896</u>

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

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE (DEFICIT) OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ (224,085)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of long-term debt is as follows:

Bond principal payment	130,000	
Developer advance	<u>(10,000)</u>	120,000

Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Depreciation	(1,090)	
Net change in accrued interest on developer advances	(3,090)	
Net change in accrued interest on bonds and notes	<u>(62,396)</u>	<u>(66,576)</u>

Change in net position of governmental activities	<u><u>\$ (170,661)</u></u>
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These financial statements should be read only in connection with the accompanying notes to financial statements.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year Ended December 31, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 31,084	\$ 31,084	\$ 31,084	\$ -
Specific ownership taxes	6,000	6,000	5,202	(798)
Infrastructure support fees	10,000	10,000	8,250	(1,750)
Miscellaneous	-	-	482	482
Interest	50	50	78	28
Total revenues	<u>47,134</u>	<u>47,134</u>	<u>45,096</u>	<u>(2,038)</u>
<b>EXPENDITURES</b>				
Audit	4,200	4,200	4,300	(100)
County treasurer fees	935	935	932	3
Directors' fees	3,500	3,500	1,200	2,300
District management and accounting	25,000	25,000	42,144	(17,144)
Dues	400	400	320	80
Elections	5,000	5,000	-	5,000
Insurance and bonds	3,000	3,000	2,981	19
Legal	18,000	18,000	8,707	9,293
Repairs and maintenance	7,000	7,000	6,850	150
Support services	3,000	3,000	1,280	1,720
Utilities	500	500	-	500
Miscellaneous	1,000	1,000	1,006	(6)
Total expenditures	<u>71,535</u>	<u>71,535</u>	<u>69,720</u>	<u>1,815</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>(24,401)</u>	<u>(24,401)</u>	<u>(24,624)</u>	<u>(223)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advance	10,000	10,000	10,000	-
Transfer to Debt Service Fund	-	(85,000)	(85,000)	-
Total other financing sources (uses)	<u>10,000</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(14,401)</u>	<u>(99,401)</u>	<u>(99,624)</u>	<u>(223)</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>109,187</u>	<u>120,834</u>	<u>120,834</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 94,786</u>	<u>\$ 21,433</u>	<u>\$ 21,210</u>	<u>\$ (223)</u>

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

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Elkhorn Ranch Metropolitan District No. 1 (District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized on June 18, 2002, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area boundaries are located entirely in Elbert County, Colorado (County).

The District was established principally to coordinate the construction, acquisition, financing and maintenance of public improvements, including streets and safety control, landscaping, water, sewer, storm drainage, television relay, and park and recreation improvements and facilities. Upon completion of construction and installation, it is the District's intent to dedicate all public improvements to the County or its designee for operation and maintenance. Certain landscaping, park and recreation improvements, and street lighting may be maintained by the District or by a homeowners' association.

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The more significant accounting policies of the District are described as follows:

**Government-wide and Fund Financial Statements**

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District except for fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The statement of net position reports all financial and capital resources of the District. The difference between the assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as net position.

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.

Separate financial statements are provided for governmental funds. 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 related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for property and equipment are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes, infrastructure support fees, facility fees and road fees. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation paid. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds.

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

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

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

**Budgets**

In accordance with the Local Government Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. 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.

For the year ended December 31, 2016, supplementary appropriations approved by the District's Board of Directors modified the appropriation from \$71,535 to \$156,535 in the General Fund and from \$394,642 to \$660,642 in the Debt Service Fund.

**Pooled Cash and Investments**

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 single account. 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.

**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 30 or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenue is recorded as revenue in the year they are available or collected.

**Capital Assets**

Capital assets, which include open space, landscape and parks, are reported in the governmental activities column in the governmental-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost 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 asset or materially extend the life of the asset are not capitalized. Improvements that will be dedicated to other governmental entities are not depreciated. Improvements to be owned by the District are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

Landscaping improvements	20 years
Park and recreation equipment	20 years

**Development Fees**

The District imposes certain development impact and facility fees on property within the District. The facility fee and infrastructure fee for road improvements are required to be paid upon the closing of a sale to a residential end user for a permanent structure on any lot. The infrastructure fee for road improvements is to be used solely for the improvement of certain access roads into the District. The District records revenues for these fees when they are measurable and available.

On February 10, 2011, the District approved the imposition of an infrastructure support fee in an annual amount for each undeveloped lot within the District. The fee is assessed as of the first day of August until a certificate of occupancy is issued for the undeveloped lot. The infrastructure support fee shall be imposed but waived on a dollar-for-dollar basis to the extent that the owner of at least three (3) or more such undeveloped lots provides any developer advances to the District from January 2 of the year immediately preceding the imposition of the infrastructure support fee to January 1 of the year the infrastructure support fee is imposed. On an annual basis, the District reviews the infrastructure support fee and adjusts it accordingly.

As of December 31, 2016, the District imposed the following fees per single-family equivalent:

Facility fee - \$3,500
Infrastructure fee for road improvements - \$2,220
Infrastructure support fee - \$250

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balances – Governmental Funds**

The District's governmental fund balances may consist of five classifications based on the relative strength of the spending constraints:

Nonspendable fund balance – the amount of fund balance that is not in spendable form (such as inventory or prepaids) or is legally or contractually required to be maintained intact.

Restricted fund balance – the amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level of action to remove or change the constraint.

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

Unassigned fund balance – amounts that are available for any purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District Board of Directors has provided otherwise in its commitment or assignment actions.

**Reclassifications**

Certain prior year long-term obligation amounts related to developer advances and promissory notes have been reclassified to conform to the current year presentation.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS**

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

Statement of net position:

Cash and investments - unrestricted	\$ 97,768
Cash and investments - restricted	<u>19</u>
Total cash and investments	<u>\$ 97,787</u>

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

Deposits with financial institutions	\$ 97,768
Investments	<u>19</u>
Total cash and investments	<u>\$ 97,787</u>

**Cash Deposits**

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

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

At December 31, 2016, the District's cash deposits had a bank balance of \$98,335 and a book balance of \$97,768.

**Investments**

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

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

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

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

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

- \* Obligations of the United States and certain U.S. government agency securities and the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Certain reverse repurchase agreements
- . Certain securities and lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- \* Local government investment pools

The local government investment pool Colorado Surplus Asset Fund Trust (CSAFE) is rated AAAM by S&P Global Ratings.

As of December 31, 2016, the District had the following investments:

<b>Investment</b>	<b>Maturity</b>	<b>Fair Value</b>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	<u>\$ 19</u>

**CSAFE**

During 2016, the District invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. As of December 31, 2016, the District had \$19 invested in CSAFE and held by a Trustee in the name of the District.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

**Investment Valuation**

Certain investments that are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally 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; and Level 3 inputs are significant unobservable inputs.

However, the District's investments are not measured at fair value and are therefore not categorized within the fair value hierarchy. These investments include a 2a7-like external investment pool (CSAFE). These investments are recorded at amortized cost. The District is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

**NOTE 4 - CAPITAL ASSETS**

An analysis of the changes in capital assets for the year ended December 31, 2016, follows:

<u>Governmental Activities</u>	<u>Balance at December 31, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2016</u>
Capital assets, not being depreciated:				
Open space	\$ 240,000	\$ -	\$ -	\$ 240,000
Total capital assets, not being depreciated	<u>240,000</u>	<u>-</u>	<u>-</u>	<u>240,000</u>
Capital assets being depreciated:				
Landscape and parks	21,766	-	-	21,766
Total capital assets, being depreciated	<u>21,766</u>	<u>-</u>	<u>-</u>	<u>21,766</u>
Less accumulated depreciation for:				
Landscape and parks	(10,883)	(1,090)	-	(11,973)
Total accumulated depreciation	<u>(10,883)</u>	<u>(1,090)</u>	<u>-</u>	<u>(11,973)</u>
Total assets being depreciated, net	<u>10,883</u>	<u>(1,090)</u>	<u>-</u>	<u>9,793</u>
Governmental activities capital assets, net	<u>\$ 250,883</u>	<u>\$ (1,090)</u>	<u>\$ -</u>	<u>\$ 249,793</u>

Depreciation expense is charged to the general government function/program in the Statement of Activities.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

In accordance with the District's service plan, it is anticipated that, except for certain landscaping, water, park and recreation improvements and street lighting, the District will dedicate the improvements and facilities to the County or its designee. Upon acceptance by the County or its designee for maintenance and ownership, the facilities will be removed from the District's property records.

**NOTE 5 - LONG-TERM OBLIGATIONS**

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2016:

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
G.O. Limited Tax Convertible to Unlimited Tax Bonds, Series 2005A Subordinate Convertible Capital	\$ 6,480,000	\$ -	\$ 130,000	\$ 6,350,000	\$ 225,000
Appreciation Bond, Series 2006	1,575,000	-	-	1,575,000	70,000
G.O. Taxable Subordinate Promissory Note, Series 2012B	89,600	-	-	89,600	-
Developer advances	439,875	10,000	-	449,875	-
Accrued interest on developer advances	111,367	3,090	-	114,457	-
	<u>\$ 8,695,842</u>	<u>\$ 13,090</u>	<u>\$ 130,000</u>	<u>\$ 8,578,932</u>	<u>\$ 295,000</u>

The detail of the District's long-term obligations is as follows:

**General Obligation Bonds, Series 2005A**

On September 1, 2005, the District issued \$6,950,000 in General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2005A (Series 2005A Bonds). The Series 2005A Bonds are term bonds maturing on December 1, 2035 at 6.375% interest. Interest is payable semi-annually on June 1 and December 1 each year, commencing December 1, 2005. The Series 2005A Bonds are subject to redemption prior to maturity, at the option of the District, on December 1, 2015, and on any date thereafter, upon payment of par and accrued interest, without redemption premium. The Series 2005A Bonds are also subject to mandatory sinking fund redemption on December 1, 2008, and on each December 1 thereafter in increasing amounts until the maturity date.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

The Series 2005A Bonds are general obligations of the District secured by and payable from pledged revenues, which consist primarily of ad valorem property taxes, facility fees (see Note 2), and specific ownership taxes collected by the County and remitted to the District primarily on motor vehicle licensing. Until the debt to assessed value ratio of the District is equal to 50% or less, pledged revenue that is not needed to pay debt service on the bonds in any year will be deposited to and held in the Series 2005A Bond surplus fund, up to the maximum amount of \$695,000.

The District was unable to make the prior year principal deficiency payment of \$90,000 in the current year. This deficiency is due to the fact that the District has experienced moderate growth in recent assessment cycles and its recovery from the economic downturn of 2008 has been slow. As a result, the collection of levied property taxes was insufficient to make the payment for the prior year deficiency. The amount held in the Series 2005A Bond surplus fund at December 31, 2016 was \$0.

Proceeds of the bonds were used to pay a portion of the costs of acquiring and constructing capital improvements, provide capitalized interest for the payment of a portion of the interest on the bonds, and to pay costs of issuance.

**Subordinate Convertible Capital Appreciation Bond, Series 2006B**

On April 17, 2006, the District issued \$1,575,000 in Subordinate Convertible Capital Appreciation Bonds, Series 2006B (Series 2006B Bonds) at a discounted value of \$1,299,265. The Series 2006B Bonds are term bonds maturing on December 1, 2036 at 7.5% interest. Interest is payable annually on December 15 each year, commencing December 15, 2009. The principal amount of the Series 2006B Bonds accrued interest from April 17, 2007 to December 14, 2008, and such interest was compounded on each December 15 prior to December 1, 2009.

Such compounded interest thereafter constituted accreted interest. Beginning on December 15, 2008, the accreted value of the Series 2006B Bonds bear interest at the interest rate. The Series 2006B Bonds are subject to redemption prior to maturity, at the option of the District, on December 1, 2008, and on any date thereafter, upon payment the redemption price. The Series 2006B Bonds are also subject to mandatory sinking fund redemption on December 15, 2011, and on each December 15 thereafter. However, due to insufficient pledged revenue, the District has not yet been able to adhere to the mandatory sinking fund redemption.

The Series 2006B Bonds are subordinate obligations of the District secured by and payable from pledged revenues, which consist primarily of ad valorem property taxes, specific ownership taxes collected by the County and remitted to the District primarily on motor vehicle licensing and any monies released from the Series 2005A Bond's surplus fund.

Proceeds of the bonds were used to satisfy a portion of the District's obligations under the Elkhorn Ranch Venture, LLC advance and reimbursement agreement.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

The District's long-term obligations relating to the general obligation and subordinate bonds will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 295,000	\$ 817,325	\$ 1,112,325
2018	170,000	503,344	673,344
2019	185,000	492,338	677,338
2020	205,000	480,319	685,319
2021	220,000	467,025	687,025
2022 - 2026	1,555,000	2,084,082	3,639,082
2027 - 2031	2,400,000	1,462,669	3,862,669
2032 - 2036	2,895,000	529,969	3,424,969
	<u>\$ 7,925,000</u>	<u>\$ 6,837,071</u>	<u>\$ 14,762,071</u>

**General Obligation Taxable Subordinate Promissory Note, Series 2012A**

On February 28, 2012, the District entered into an advance and reimbursement agreement for advances with Red Tierra Equities, LLC (Red Tierra), concerning the future advance of funds to the District by Red Tierra for the acquisition, construction, maintenance and installation of public facilities. The advance and reimbursement agreement also provided for the issuance of the Elkhorn Ranch Metropolitan District No. 1 General Obligation Subordinate Promissory Note, Series 2012A (Series 2012A Note) in the aggregate principal amount of \$610,400 to establish the terms and conditions for repayment of future advances. The District shall be obligated to reimburse Red Tierra, the registered owner of the Series 2012A Note, only for the actual certified project costs incurred to construct such reimbursable improvements for which documentation may be provided to the District through and including December 31, 2022. The Series 2012A Note accrues interest at 8.0% and matures on December 31, 2052. The Series 2012A Note is a subordinate obligation of the District secured by and payable from pledged revenues, which consist primarily of ad valorem property taxes, specific ownership taxes collected by the County and remitted to the District primarily on motor vehicle licensing and any monies released from the Series 2005A Bond surplus fund and any other legally available monies which the District determines, in its absolute discretion, to apply to payment of the principal of, and interest on the advance. As of December 31, 2016, there were no certified construction costs submitted for reimbursement.

Pursuant to the provisions of paragraph 5.1 of this agreement, the December 6, 2011 advance and reimbursement agreement between the District and Red Tierra was to be terminated and of no further force or effect (see Note 13). Contemporaneous to the execution of the advance and reimbursement agreement and the issuance of the Series 2012A Note, the District also issued its \$89,600 General Obligation Taxable Subordinate Promissory Note, Series 2012B (described below).

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**General Obligation Taxable Subordinate Promissory Note, Series 2012B**

On February 28, 2012, the District entered into an advance and reimbursement agreement for advances with Elkhorn Land Company, LLC (Elkhorn Land), concerning the advance of funds to the District by Elkhorn Land for the construction, design, operations, maintenance, engineering and related capital costs for certain public improvements, facilities and services. The advance and reimbursement agreement also provided for the issuance of the Elkhorn Ranch Metropolitan District No. 1 General Obligation Subordinate Promissory Note, Series 2012B (Series 2012B Note) in the original amount of \$89,600 to establish the terms and conditions for repayment of the advances made to the District under the August 19, 2003 advance and reimbursement agreement. The Series 2012B Note accrues interest at 8.0% and matures on December 31, 2052. The registered owner of the Series 2012B Note is Elkhorn Land. The Series 2012B Note is a subordinate obligation of the District secured by and payable from pledged revenues, which consist primarily of ad valorem property taxes, specific ownership taxes collected by the County and remitted to the District primarily on motor vehicle licensing and any monies released from the Series 2005A Bond surplus fund and any other legally available monies which the District determines, in its absolute discretion, to apply to payment of the principal of, and interest on the advance.

Pursuant to the provisions of paragraph 5.1 of this agreement, the August 19, 2003 advance and reimbursement agreement between the District and Elkhorn Land was terminated and of no further force or effect. Contemporaneous to the execution of the advance and reimbursement agreement and the issuance of the Series 2012B Note, the District also issued its \$610,400 Series 2012A Note (described above).

**Advance and Reimbursement Agreement - Elkhorn Ranch Venture, LLC**

The District entered into an advance and reimbursement agreement with Elkhorn Ranch Venture, LLC (Elkhorn Ranch Venture) on August 19, 2003. The agreement stipulates that the District shall reimburse Elkhorn Ranch Venture for any advances made to the District, together with interest at the rate of 7.0% per annum. The District shall make payment for the advances, subject to annual appropriation and budget approval, from funds available within any fiscal year and not otherwise required for operations, capital improvements and debt service costs and expenses of the District. At December 31, 2016, the District had no outstanding advances under the agreement (see Note 8).

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**Advance and Reimbursement Agreement – Red Tierra Equities, LLC**

The District entered into an advance and reimbursement agreement with Red Tierra on December 6, 2011. The agreement stipulates that the District shall reimburse Red Tierra for any advances made to the District, together with interest at the rate of 7.0% per annum. The District shall make payment for the advances, subject to annual appropriation and budget approval, from funds available within any fiscal year and not otherwise required for operations, capital improvements and debt service costs and expenses of the District. At December 31, 2016, the District owed the developer \$392,875 in principal and \$106,876 in accrued interest (see Notes 8 and 13).

**Advance and Reimbursement Agreement - Elkhorn Land Company, LLC**

The District entered into an advance and reimbursement agreement with Elkhorn Land on August 2, 2011. The agreement stipulates that the District shall reimburse Elkhorn Land for any advances made to the District, together with interest at the rate of 7.0% per annum. The agreement allows Elkhorn Land to provide a developer advance in lieu of the imposition of the infrastructure support fee. The District shall make payment for the advances, subject to annual appropriation and budget approval, from funds available within any fiscal year and not otherwise required for operations, capital improvements and debt service costs and expenses of the District. At December 31, 2016, the District owed the developer \$57,000 in principal and \$7,581 in accrued interest (see Notes 8 and 13).

**Advance and Reimbursement Agreement – U. S. Home Corporation**

The District entered into an advance and reimbursement agreement with U. S. Home Corporation (U. S. Home) on August 19, 2003. The agreement stipulates that the District shall reimburse U.S. Home for any advances made to the District, together with interest at the rate of 7.0% per annum. The District shall make payment for the advances, subject to annual appropriation and budget approval, from funds available within any fiscal year and not otherwise required for operations, capital improvements and debt service costs and expenses of the District. At December 31, 2016, the District had no outstanding advances under the agreement (see Note 8). Lennar Corporation acquired U.S. Home Corporation in 2000.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**Authorized Debt**

On May 7, 2002, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$30,350,000 at an interest rate not to exceed 18% per annum. At December 31, 2016, the District had authorized but unissued indebtedness from this election in the following amounts allocated for the following purposes:

	<u>Total Authorized</u>	<u>Remaining at December 31, 2016</u>
Street improvements	\$ 8,400,000	\$ 2,467,865
Park and recreation facilities	1,820,000	1,820,000
Water supply improvements	3,780,000	1,462,870
Sanitary sewer system	1,000,000	1,000,000
Operations and maintenance	350,000	350,000
Debt refunding	15,000,000	15,000,000
	<u>\$ 30,350,000</u>	<u>\$ 22,100,735</u>

**NOTE 6 – FUND EQUITY**

At December 31, 2016, the District reported the following classifications of fund equity.

**Nonspendable Fund Balance**

The nonspendable fund balance in the General Fund in the amount of \$2,488 represents prepaid expenditures for the ensuing fiscal year and is therefore not in a spendable form.

**Restricted Fund Balance**

The restricted fund balance in the General Fund in the amount of \$2,200 is comprised of the emergency reserves that have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 11).

The restricted fund balance in the Capital Projects Fund in the amount of \$284,370 is to be used exclusively for the improvements of certain access roads into the District as collected through infrastructure fees for road improvements (see Note 2).

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 6 – FUND EQUITY (CONTINUED)**

**Unrestricted Fund Balance**

At December 31, 2016, the Debt Service Fund had a \$181,684 unassigned deficit primarily as a result of the debt service payment being in excess of the pledged revenue available. This fund balance deficit is expected to be eliminated by anticipated increases in the assessed valuation that will generate more pledged revenue in the future.

**NOTE 7 - NET POSITION**

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

The net investment in capital assets consists of capital assets that will be owned by the District, net of accumulated depreciation, and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. As of December 31, 2016, the District had a deficit net investment in capital assets of \$43,634.

Restricted net position includes amounts that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has restricted amounts of \$284,370 for road improvements as of December 31, 2016. The District also had restricted \$2,200 for emergency reserves.

As of December 31, 2016, the District had a deficit unrestricted net position of \$8,842,574. This deficit amount is the result of the District being responsible for the repayment of bonds issued for public improvements which were conveyed to other governmental entities.

**NOTE 8 - RELATED PARTY**

The members of the Board of Directors of the District are employees of, owners of, or otherwise associated with Elkhorn Ranch Venture, Red Tierra, Elkhorn Land and Bromley Companies and may have conflicts of interest in dealing with the District. Specific details of transactions with Elkhorn Ranch Venture, Red Tierra, Elkhorn Land and Bromley Companies regarding organization, advances and debt are described elsewhere in these footnotes. Additionally, the District's Series 2006B Bonds were purchased by CAW Equities, LLC, a company that is owned by members of the Board of Directors.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 9 - INTERGOVERNMENTAL AGREEMENTS**

**Permanent Water Service Agreement**

On August 18, 2005, the District entered into a water service agreement with Arapahoe County Water and Wastewater Authority (ACWWA). Under the agreement, the District has dedicated appropriate sites and easements to ACWWA to the extent necessary for ACWWA to provide water service to the District's service area. The District has constructed certain water lines and related facilities necessary to provide this water service. During 2005, these water improvements were conveyed to ACWWA for ownership and maintenance.

To help fund the District's cost of constructing the water facilities, ACWWA has credited to the District 109 prepaid water tap fees, as well as a surcharge fee on each water tap with an initial credit value of \$1,606,660. Upon receipt of the 109th water tap, the District shall remit all remaining tap fees and surcharge fees to ACWWA. As of December 31, 2016, the District had received water tap fee and surcharge fee revenue on 102 lots.

**NOTE 10 - RISK MANAGEMENT**

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool 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.

**NOTE 11 - TAX, SPENDING AND DEBT LIMITATIONS**

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

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 11 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)**

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.

On May 7, 2002, a majority of the District's electors authorized the District to increase taxes \$100,000 annually to pay the District's operations, maintenance and other expenses, without limitation on the mill levy rate imposed, and in amounts sufficient to produce the annual increase or a lesser amount as may be necessary. The proceeds of such taxes and investment income thereon may collected and spent by the District as a voter-approved revenue change without regard to spending, revenue-raising, or the limitations contained in TABOR or Section 29-1-301, C.R.S. The electors also authorized the District to collect, retain and spend any revenue from sources other than ad valorem taxes annually without regard to any limitations imposed by TABOR.

**NOTE 12 - ECONOMIC DEPENDENCY**

The District has not yet established a revenue base sufficient to pay the District's debt service requirements and operations. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding by the developer to pay operations and capital requirements.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 13 – SUBSEQUENT EVENTS**

**Revival and Extension of Advance and Reimbursement Agreement – Red Tierra Equities, LLC**

A revival and extension of advance and reimbursement agreement was entered into on February 28, 2017 between the District and Red Tierra for the purpose of reviving and re-instating the advance and reimbursement agreement entered into between the District and Red Tierra on December 6, 2011, regardless of the provisions of paragraph 5.1 in the advance and reimbursement agreement dated February 28, 2012 in which the District issued its Series 2012A Note (see Note 5).

**Revival and Extension of Advance and Reimbursement Agreement – Elkhorn Land Company, LLC**

A revival and extension of advance and reimbursement agreement was entered into on February 28, 2017 between the District and Elkhorn Land for the purpose of reviving and re-instating the advance and reimbursement agreement entered into between the District and Elkhorn Land on August 2, 2011, regardless of the provisions of paragraph 5.1 in the advance and reimbursement agreement dated February 28, 2012 in which the District issued its Series 2012B Note (see Note 5).

**Termination of Advance and Reimbursement Agreement – The Bromley Companies, LLC**

An advance and reimbursement agreement between the District and Bromley Companies was entered into on August 19, 2003. As of December 31, 2016, there were no outstanding advances under this agreement. Pursuant to board action taken at the regular meeting held February 28, 2017, this agreement was terminated.

**Termination of Advance and Reimbursement Agreement – Elbert/Douglas Exchange Company, LLC**

An advance and reimbursement agreement between the District and Elbert/Douglas Exchange Company, LLC was entered into on November 19, 2002. As of December 31, 2016, there were no outstanding advances under this agreement. Pursuant to board action taken at the regular meeting held February 28, 2017, this agreement was terminated.

This information is an integral part of the accompanying financial statements.

**SUPPLEMENTAL INFORMATION**

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE (DEFICIT)**  
**BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**Year Ended December 31, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 321,411	\$ 321,411	\$ 321,418	\$ 7
Specific ownership taxes	55,000	55,000	53,789	(1,211)
Facility fees	17,500	17,500	45,500	28,000
Interest	200	200	464	264
Total revenues	<u>394,111</u>	<u>394,111</u>	<u>421,171</u>	<u>27,060</u>
<b>EXPENDITURES</b>				
<u>General</u>				
County treasurer fees	9,642	9,642	9,630	12
<u>Debt Service</u>				
Bond principal	-	130,000	130,000	-
Bond interest	382,000	518,000	517,404	596
Paying agent fees	3,000	3,000	2,458	542
Total expenditures	<u>394,642</u>	<u>660,642</u>	<u>659,492</u>	<u>1,150</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>(531)</u>	<u>(266,531)</u>	<u>(238,321)</u>	<u>28,210</u>
<b>OTHER FINANCING SOURCES</b>				
Transfer from General Fund	-	85,000	85,000	-
Total other financing sources	<u>-</u>	<u>85,000</u>	<u>85,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(531)	(181,531)	(153,321)	28,210
<b>FUND BALANCE (DEFICIT) - BEGINNING OF YEAR</b>	<u>791</u>	<u>791</u>	<u>(28,363)</u>	<u>(29,154)</u>
<b>FUND BALANCE (DEFICIT) - END OF YEAR</b>	<u>\$ 260</u>	<u>\$ (180,740)</u>	<u>\$ (181,684)</u>	<u>\$ (944)</u>

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**CAPITAL PROJECTS FUND**  
**Year Ended December 31, 2016**

	<u>Budget Amounts</u> <u>Original and Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Road fees	\$ 11,100	\$ 28,860	\$ 17,760
Total revenues	<u>11,100</u>	<u>28,860</u>	<u>17,760</u>
<b>EXPENDITURES</b>			
Capital outlay			
Road improvements	235,000	-	235,000
Total expenditures	<u>235,000</u>	<u>-</u>	<u>235,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	(223,900)	28,860	252,760
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>226,650</u>	<u>255,510</u>	<u>28,860</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 2,750</u>	<u>\$ 284,370</u>	<u>\$ 281,620</u>

**OTHER INFORMATION**

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**SCHEDULE OF BOND DEBT SERVICE REQUIREMENTS TO MATURITY**  
**December 31, 2016**

	<b>\$6,950,000</b>		<b>\$1,575,000</b>		<b>Total</b>
	<b>General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds Dated September 1, 2005 Interest Rate of 6.375% Payable on June 1 and December 1 Principal due on December 1</b>		<b>General Obligation Subordinate Bonds (Non-Rated, Convertible CAB) Dated April 17, 2006 Interest Rate of 7.5% Principal and Interest due on December 15</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2017	\$ 225,000	(1) \$ 399,075	\$ 70,000	(2) \$ 418,250	(2) \$ 1,112,325
2018	155,000	390,469	15,000	112,875	673,344
2019	165,000	380,588	20,000	111,750	677,338
2020	185,000	370,069	20,000	110,250	685,319
2021	200,000	358,275	20,000	108,750	687,025
2022	220,000	345,525	20,000	107,250	692,775
2023	235,000	331,500	35,000	105,750	707,250
2024	260,000	316,519	60,000	103,125	739,644
2025	280,000	299,944	65,000	98,625	743,569
2026	310,000	282,094	70,000	93,750	755,844
2027	330,000	262,331	75,000	88,500	755,831
2028	360,000	241,294	85,000	82,875	769,169
2029	385,000	218,344	90,000	76,500	769,844
2030	420,000	193,800	100,000	69,750	783,550
2031	445,000	167,025	110,000	62,250	784,275
2032	490,000	138,656	120,000	54,000	802,656
2033	520,000	107,419	130,000	45,000	802,419
2034	565,000	74,269	145,000	35,250	819,519
2035	600,000	38,250	155,000	24,375	817,625
2036	-	-	170,000	12,750	182,750
	<u>\$ 6,350,000</u>	<u>\$ 4,915,446</u>	<u>\$ 1,575,000</u>	<u>\$ 1,921,625</u>	<u>\$ 14,762,071</u>

(1) Includes \$90,000 of past due principal.

(2) Includes \$60,000 of past due principal and \$304,625 of past due interest.

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1**  
**SCHEDULE 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 Taxes</u>		<u>Percentage Collected to Levied</u>
			<u>Levied</u>	<u>Collected</u>	
2010	\$ 7,667,740	55.000	\$ 421,726	\$ 496,888	117.82%
2011	7,257,220	56.700	411,484	411,391	99.98%
2012	5,119,780	56.700	290,292	290,292	100.00%
2013	5,173,880	56.700	293,359	293,359	100.00%
2014	6,078,400	56.700	344,645	278,151	80.71%
2015	4,925,540	56.700	279,278	279,278	100.00%
2016	6,216,850	56.700	352,495	352,502	100.00%
Estimated for the year ending December 31, 2017	\$ 7,202,920	56.700	\$ 408,406		

**NOTE:**

Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the county treasurer does not permit identification of specific year of assessment.