

FAIRLAKE METROPOLITAN DISTRICT
City and County of Denver, Colorado
—
FINANCIAL STATEMENTS
December 31, 2016

L. PAUL GOEDECKE P.C.
CERTIFIED PUBLIC ACCOUNTANTS



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Independent Auditor's Report

Board of Directors
Fairlake Metropolitan District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Fairlake 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 Fairlake 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 opinions on the basic financial statements are not affected by this missing 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 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.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
July 19, 2017

FAIRLAKE METROPOLITAN DISTRICT

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

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 115,290	\$ -	\$ 115,290	\$ -	\$ 115,290
Cash and investments - restricted	6,000	71,400	77,400	-	77,400
Receivable – County Treasurer	-	4,302	4,302	-	4,302
Property tax receivable	185,705	-	185,705	-	185,705
Deposits	225	-	225	-	225
Total assets	<u>307,220</u>	<u>75,702</u>	<u>382,922</u>	<u>-</u>	<u>382,922</u>
LIABILITIES					
Accounts payable	8,290	15,784	24,074	-	24,074
Deposits	1,383	-	1,383	-	1,383
Total liabilities	<u>9,673</u>	<u>15,784</u>	<u>25,457</u>	<u>-</u>	<u>25,457</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	185,705	-	185,705	-	185,705
Total deferred inflows of resources	<u>185,075</u>	<u>-</u>	<u>185,075</u>	<u>-</u>	<u>185,705</u>
FUND BALANCE					
Fund Balances:					
Nonspendable:					
Prepays/deposits	225	-	225	(225)	-
Restricted:					
Emergencies	6,000	-	6,000	(6,000)	-
Debt service	-	59,918	59,918	(59,918)	-
Unassigned	105,617	-	105,617	(105,617)	-
Total fund balances	<u>111,842</u>	<u>59,918</u>	<u>171,760</u>	<u>(171,760)</u>	<u>-</u>
Total liabilities, Deferred Inflows of Resources and Fund balance	<u>\$ 307,220</u>	<u>\$ 75,702</u>	<u>\$ 382,922</u>		
NET POSITION					
Restricted for:					
Emergencies				6,000	6,000
Debt service				59,918	59,918
Unrestricted				105,842	105,842
Total net position				<u>\$ 171,760</u>	<u>\$ 171,760</u>

NOTE: The accompanying notes are an integral part of the financial statements.

FAIRLAKE METROPOLITAN DISTRICT

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

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES					
Accounting and audit	\$ 5,275	\$ -	\$ 5,275	\$ -	\$ 5,275
Directors fees	500	-	500	-	500
District management	25,000	-	25,000	-	25,000
Utilities	46,441	-	46,441	-	46,441
Insurance	4,599	-	4,599	-	4,599
Legal	11,538	-	11,538	-	11,538
Miscellaneous	4,023	-	4,023	-	4,023
Maintenance snow removal	15,795	-	15,795	-	15,795
Maintenance landscaping	69,692	-	69,692	-	69,692
Maintenance storm sewer	13,780	-	13,780	-	13,780
Maintenance sanitary sewer	2,478	-	2,478	-	2,478
Bond principal	-	1,100,000	1,100,000	(1,100,000)	-
Bond interest	-	44,000	44,000	(20,513)	23,487
Paying agent fees	-	200	200	-	200
Treasurer Fees	2,264	5,946	8,210	-	8,210
Total expenditures/expenses	<u>201,385</u>	<u>1,150,146</u>	<u>1,351,531</u>	<u>(1,120,513)</u>	<u>231,018</u>
GENERAL REVENUES					
Property tax	226,310	594,309	820,619	-	820,619
Specific ownership taxes	-	53,685	53,685	-	53,685
Interest income	110	6,703	6,813	-	6,813
Total General Revenues	<u>226,420</u>	<u>654,697</u>	<u>881,117</u>	<u>-</u>	<u>881,117</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	25,035	(495,449)	(470,414)	1,120,513	650,099
NET CHANGES IN FUND BALANCES	25,035	(495,449)	(470,414)	470,414	
CHANGE IN NET POSITION				650,099	650,099
FUND BALANCE/NET POSITION:					
BEGINNING OF YEAR	86,807	555,367	642,174	(1,120,513)	(478,339)
END OF YEAR	<u>\$ 111,842</u>	<u>\$ 59,918</u>	<u>\$ 171,760</u>	<u>\$ -</u>	<u>\$ 171,760</u>

NOTE: The accompanying notes are an integral part of the financial statements.

FAIRLAKE METROPOLITAN DISTRICT

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Original/Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 214,452	\$ 226,310	\$ 11,858
Interest income	8	110	102
Total revenues	<u>214,460</u>	<u>226,420</u>	<u>11,960</u>
EXPENDITURES			
Accounting and audit	5,200	5,275	(75)
Directors' fees	500	500	-
District management	25,000	25,000	-
Utilities	56,000	46,441	9,559
Insurance	4,591	4,599	(8)
Legal	6,000	11,538	(5,538)
Miscellaneous	4,300	4,023	277
Maintenance replace/repair	38,000	-	38,000
Maintenance snow removal	10,000	15,795	(5,795)
Maintenance landscaping	72,500	69,692	2,808
Maintenance storm sewer	-	13,780	(13,780)
Maintenance sanitary sewer	2,200	2,478	(278)
Treasurer's fees	3,217	2,264	953
Emergency reserve	27,374	-	27,374
Total expenditures	<u>254,882</u>	<u>201,385</u>	<u>53,497</u>
NET CHANGE IN FUND BALANCE	(40,422)	25,035	65,457
FUND BALANCE – BEGINNING OF YEAR	79,128	86,807	7,679
FUND BALANCE – END OF YEAR	<u>\$ 38,706</u>	<u>\$ 111,842</u>	<u>\$ 73,136</u>

NOTE: The accompanying notes are an integral part of the financial statements.

FAIRLAKE METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 – DEFINITION OF REPORTING ENTITY

Definition of Reporting Entity

Fairlake Metropolitan District (The District), a quasi-municipal corporation, was organized on March 2, 1987 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in the City and County of Denver, Colorado. The District was organized to provide street improvements, storm drainage, park and recreation facilities, water and sewer facilities, mosquito control and television relay facilities and programs

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

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. Property taxes are recognized as revenues in the year for which they are levied.

FAIRLAKE METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 period. The major 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 government reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

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

Fund Balances

Beginning with fiscal year 2011 the District implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

Non-spendable fund balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.

Restricted fund balance – The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District’s highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors.

FAIRLAKE METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned fund balance – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned fund balance – The residual portion of fund balance that does not meet any of the above criteria.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District’s policy to use the most restrictive classification first.

Budgets

In accordance with the State Budget Law, 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 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.

Cash

The District follows the practice of pooling cash 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 bank 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.

Capital Assets

Capital assets are reported in the applicable governmental activities column 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Assets included in construction in progress that the District has conveyed are not included in the calculation of invested in capital assets, net of related debt.

FAIRLAKE METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expenses is computed using the straight-line method over the estimated economic lives.

Recreation facilities	15-25 years
Trails	15 years
Roads and parking lot	15 years
Irrigation, lighting and gate	10-15 years
Retaining walls/erosion control	5 years

Depreciation expense as of December 31, 2016 was \$ 0 as all assets are fully depreciated.

Property Taxes

Property taxes are levied by the District 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 assess the property tax obligation of 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 at the taxpayers election, in equal installments in February and June. Delinquent taxpayers are notified in 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. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Fund Equity

Fund Balance

The fund balances have been reserved for that portion of the fund balance that is legally segregated or is not subject to future appropriation. Designations of unreserved fund balances indicate management's intention for future utilization of such funds and are subject to change by management.

FAIRLAKE METROPOLITAN DISTRICT
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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 statement as follows:

Statement of Net Position:

Cash and investments	\$ 115,290
Cash and investments – restricted	77,400
	\$ 192,690

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

Deposits with financial institutions	\$ 2,493
Investments	190,197
	\$ 192,690

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 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 \$ 2,493 and a carrying balance of \$ 2,493.

Investments

Credit Risk

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

FAIRLAKE METROPOLITAN DISTRICT
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NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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) and 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.

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

The District has invested in COLOTRUST, an external investment pool that records its investments at fair value and is categorized as a level 2 investment.

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

The District generally limits its concentration of investments to those noted with an asterisk (*) above, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk.

The local government investment pools include the Colorado Local Government Liquid Assets Trust (ColoTrust) rated AAAM by Standard & Poor's.

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

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Liquid Asset Trust	Less than one year	\$ 190,197

FAIRLAKE METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

As of December 31, 2016 the District had invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commission administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. As of December 31, 2016, the District has \$190,197 invested in COLOTRUST PRIME.

NOTE 4 – CAPITAL ASSETS

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

Governmental Activities	Balance at 1/1/2016	Additions	Retirements	Balance at 12/31/2016
Capital assets being depreciated:				
Recreation facilities	\$ 391,397	\$ -	\$ -	\$ 391,397
Trails	101,860	-	-	101,860
Roads and parking lots	872,790	-	-	872,790
Irrigation, lighting and gate access systems	399,901	-	-	399,901
Retaining walls/erosion control	243,939	-	-	243,939
Total capital assets being depreciated	<u>2,009,887</u>	<u>-</u>	<u>-</u>	<u>2,009,887</u>
Less accumulated depreciation for:				
Recreation facilities	391,397	-	-	391,397
Trails	101,860	-	-	101,860
Roads and parking lots	872,790	-	-	872,790
Irrigation, lighting and gate access systems	399,901	-	-	399,901
Retaining walls/erosion control	243,939	-	-	243,939
Total accumulated depreciation	<u>2,009,887</u>	<u>-</u>	<u>-</u>	<u>2,009,887</u>
Government type assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

FAIRLAKE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to general government function/program of the District in the amount of \$ 0 for the year ended December 31, 2016.

The District retains ownership, maintenance and insurance responsibility over park and recreation facilities, primarily lake improvements under a 99 year lease. Ownership, maintenance and insurance responsibilities for streets, drainage systems and sanitary sewer systems have been transferred to the City and County of Denver (City).

NOTE 5 – NET POSITION

The District has net position consisting of two components – restricted and unrestricted.

Restricted assets include Net Position that are restricted for use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

NOTE 6 – LONG-TERM OBLIGATIONS

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

	Balance at 1/1/2016	Additions	Reductions	Balance at 12/31/2016
G.O. Refunding Bonds, Series 2010	\$ 1,100,000	\$ -	\$ 1,100,000	\$ -
Premium on bond issue	16,846	-	16,846	-
	<u>\$ 1,116,846</u>	<u>\$ -</u>	<u>\$ 1,116,846</u>	<u>\$ -</u>

The details of the Districts long-term obligation are as follows:

\$9,535,000 General Obligation Refunding Bonds, Series 1998, dated October 15, 1998, with interest of 3.40% 50 4.60%, consisting of serial bonds issued in the amount of \$3,920,000 due annually through 2008 and term bonds issued in the original amount of \$2,565,000 and \$3,050,000 due December 1, 2012 and 2016 respectively. Bonds maturing on December 1, 2012 are subject to mandatory redemption by lot on December 1, 2009 through 2012. Bonds maturing on December 1, 2012 are subject to mandatory redemption by lot on December 1, 2009 through 2012. Bonds maturing on December 1, 2016 are subject to mandatory redemption by lot on December 2013 through 2016. Bonds maturing on or before December 1, 2008 are not subject to prior redemption. Bonds maturing December 1, 2012 and 2016 are callable on December 1, 2008 at par. Repayment of principal and interest has been insured by Asset Guaranty Insurance Company. These bonds were called in 2010 with the proceeds of the 2010 General Obligation Refunding Bonds.

FAIRLAKE METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

\$4,540,000 General Obligation Refunding Bonds, Series 2010, dated July 8, 2010, with interest from 2.5% to 4.0%, due 2010 through 2016. The Bonds are not subject to redemption prior to maturity. The proceeds of the bond were used to refund the District's 1998 General Obligation Refunding Bonds in their entirety. The district retired the entire amount of its outstanding debt during 2016.

NOTE 7 – RELATED PARTIES

The Board of Directors are officers or employees of the developer and owner of property within the District, including Breakers Mez Investors, II, LLC which is the limited liability company. These members may have conflicts of interest with respect to certain transactions which come before the Board. Koelbel and Company holds an indirect interest in Breakers Mez Investors, II, LLC.

Administrative Services

The District received administrative services from Koelbel and Company under an agreement requiring the payment of \$25,000 per year for basic administration fees. Additionally, the District has agreed to pay a construction management fee of 4% of actual construction costs, excluding engineering and usual costs associated with construction activity. No construction activity took place in 2016.

Insurance

Breakers Mez Investors, II, LLC purchases commercial liability, auto liability and umbrella liability insurance for the entire project with the District and other parties named as additional insured. The premium was paid by Breakers Mez Investors, II, LLC.

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to 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.

FAIRLAKE METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 8 – RISK MANAGEMENT (CONTINUED)

The District pays annual premiums to the Pool for liability, property and public officials liability 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 9 – TAX, SPENDING AND DEBT LIMITATIONS

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations, which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR.

The initial base for local government spending and revenue limits is 1992 Fiscal Year Spending. Future spending and revenue limits are determined based on the prior year's Fiscal 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 1% of Fiscal Year Spending (excluding bonded debt service) in 1993, 2% in 1994 and 3% thereafter. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing a tax rate, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

Except for bond refinancing at lower interest rates or adding employees to existing pension plans, TABOR specifically prohibits the creation of multiple-fiscal year debt or other financial obligations without voter approval or without irrevocably pledging present cash reserves for all future payments.

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.

FAIRLAKE METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE 10 – RECONCILIATION OF *GOVERNMENT-WIDE* AND FUND
FINANCIAL STATEMENTS**

Explanation of differences between the governmental fund Statement of Revenue, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities

The governmental fund Statement of Revenue, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities include a reconciling column. Explanation of the adjustments included in the reconciling column is as follows:

Principal	\$ (1,100,000)
Bond interest	\$ (20,513)

Governmental funds report capital outlay and principal payments as expenditures. However in the Statement of Activities, the cost of fixed assets is allocated over their estimated useful lives as depreciation expense and principal is recorded as a reduction of the liability.

SUPPLEMENTAL INFORMATION

FAIRLAKE METROPOLITAN DISTRICT

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DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL
Year Ended December 31, 2016

	Original/Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 563,170	\$ 594,309	\$ 31,139
Specific ownership taxes	56,516	53,685	(2,831)
Interest income	888	6,703	5,815
Total revenues	<u>620,574</u>	<u>654,697</u>	<u>34,123</u>
EXPENDITURES			
Bond principal	1,100,000	1,100,000	-
Bond interest	44,000	44,000	-
Paying agent fees	-	200	(200)
Treasurer's fees	8,448	5,946	2,502
Emergency reserve	16,499	-	16,499
Total expenditures	<u>1,168,947</u>	<u>1,150,146</u>	<u>18,801</u>
NET CHANGE IN FUND BALANCE	(548,373)	(495,449)	52,924
FUND BALANCE:			
BEGINNING OF YEAR	549,969	555,367	5,398
END OF YEAR	<u>\$ 1,596</u>	<u>\$ 59,918</u>	<u>\$ 58,322</u>

NOTE: The accompanying notes are an integral part of the financial statements.

FAIRLAKE METROPOLITAN DISTRICT

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**SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2016**

Year ended 12/31/2016	Prior year assessed valuation for current year property tax levy		Mills levied for General fund	Mills levied for Debt Service Fund	Total property taxes		Percent collected to levied
	General	Debt Service			Levied	Collected	
2002	\$ 14,854,850	\$ 24,173,300	14.508	34.500	\$ 1,049,493	\$ 1,049,510	100.00%
2003	\$ 14,758,300	\$ 24,077,920	14.508	34.500	\$ 1,044,801	\$ 1,022,432	97.86%
2004	\$ 13,881,530	\$ 24,080,290	14.508	34.500	\$ 1,000,261	\$ 992,532	99.23%
2005	\$ 13,804,150	\$ 23,063,680	14.508	30.168	\$ 896,056	\$ 894,727	99.85%
2006	\$ 14,063,740	\$ 23,129,590	14.508	28.000	\$ 851,666	\$ 851,369	99.97%
2007	\$ 14,418,920	\$ 23,652,180	14.508	27.000	\$ 847,799	\$ 847,500	99.96%
2008	\$ 15,592,170	\$ 25,000,780	14.508	26.000	\$ 876,231	\$ 876,160	100.00%
2009	\$ 15,990,870	\$ 25,400,850	14.508	26.000	\$ 892,418	\$ 892,252	99.98%
2010	\$ 19,509,530	\$ 28,818,860	12.914	25.000	\$ 972,451	\$ 972,361	99.99%
2011	\$ 19,632,027	\$ 28,939,760	12.914	25.000	\$ 977,022	\$ 976,221	99.91%
2012	\$ 15,035,078	\$ 23,741,100	12.914	25.00	\$ 787,691	\$ 729,546	92.61%
2013	\$ 15,791,290	\$ 24,611,520	13.084	25.00	\$ 821,901	\$ 821,901	100.00%
2014	\$ 20,067,270	\$ 28,844,220	10.681	21.00	\$ 820,067	\$ 792,733	96.67%
2015	\$ 19,031,180	\$ 27,818,200	10.681	22.00	\$ 815,271	\$ 807,259	99.02%
2016	\$ 22,934,720	\$ 33,127,620	9.351	17.00	\$ 777,632	\$ 820,619	105.00%
Estimated for calendar year ending December 31, 2017	\$ 23,121,200	\$ -	9.351	0	\$ 218,205		

Note:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.

In the past some properties were not subject to the general operating fund mill levy but were subject to the debt service mill levy due to the taxing area being larger than the District boundaries. These properties were excluded from the District in past years but not removed from assessment for the debt budget. The district retired its debt in its entirety during 2016 therefore no debt service mill levy in 2017.