

**INVERNESS METROPOLITAN
IMPROVEMENT DISTRICT**

Financial Statements

Year Ended December 31, 2016
with
Independent Auditors' Report



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Board of Directors
Inverness Metropolitan Improvement District
Arapahoe and Douglas Counties, Colorado

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Inverness Metropolitan Improvement 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 of 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 Inverness Metropolitan Improvement 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 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 Inverness Metropolitan Improvement District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Simmons & Wheeler P.C.

Englewood, CO
July 27, 2017

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	Statement of Net Position
ASSETS						
Cash and investments	\$ 996,379	\$ -	\$ 204,707	\$ 1,201,086	\$ -	\$ 1,201,086
Cash and investments - restricted	-	73,845	-	73,845	-	73,845
Receivable - County Treasurer	13,012	-	-	13,012	-	13,012
Property taxes receivable	1,368,248	617,919	-	1,986,167	-	1,986,167
Other receivable	3,663	-	-	3,663	-	3,663
Due from other funds	-	-	-	-	-	-
Capital assets not being depreciated	-	-	-	-	8,598,138	8,598,138
Capital assets, net of accumulated depreciation	-	-	-	-	9,430,012	9,430,012
Total Assets	\$ 2,381,302	\$ 691,764	\$ 204,707	\$ 3,277,773	18,028,150	21,305,923
LIABILITIES						
Accounts payable	\$ 32,152	\$ 3,729	\$ 176,619	\$ 212,500	-	212,500
Accrued interest on bonds	-	-	-	-	7,120	7,120
Due to other funds	-	-	-	-	-	-
Long-term liabilities:						
Due within one year	-	-	-	-	560,000	560,000
Due in more than one year	-	-	-	-	3,015,000	3,015,000
Total Liabilities	32,152	3,729	176,619	212,500	3,582,120	3,794,620
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	1,368,248	617,919	-	1,986,167	-	1,986,167
Total Deferred Inflows of Resources	1,368,248	617,919	-	1,986,167	-	1,986,167
FUND BALANCES/NET POSITION						
Fund Balances:						
Restricted:						
Emergencies	51,500	-	-	51,500	(51,500)	-
Debt service	-	70,116	-	70,116	(70,116)	-
Capital projects	-	-	28,088	28,088	(28,088)	-
Unassigned	929,402	-	-	929,402	(929,402)	-
Total Fund Balances	980,902	70,116	28,088	1,079,106	(1,079,106)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,381,302	\$ 691,764	\$ 204,707	\$ 3,277,773		
Net Position:						
Net investment in capital assets					14,453,150	14,453,150
Restricted for:						
Emergencies					51,500	51,500
Debt service					70,116	70,116
Capital projects					28,088	28,088
Unrestricted					922,282	922,282
Total Net Position					\$15,525,136	\$15,525,136

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

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

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

For the Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Current:						
County treasurers' fees	\$ 19,807	\$ 9,615	\$ -	\$ 29,422	\$ -	\$ 29,422
Professional services	19,039	-	-	19,039	-	19,039
Administrative services	238,900	-	-	238,900	-	238,900
Insurance	14,054	-	-	14,054	-	14,054
Miscellaneous expenses	8,650	-	-	8,650	-	8,650
Public Works:						
Landscape maintenance	394,868	-	-	394,868	-	394,868
Street maintenance and repairs	228,764	-	-	228,764	-	228,764
Utilities	190,787	-	-	190,787	-	190,787
Depreciation	-	-	-	-	595,326	595,326
Recreation program costs	11,260	-	-	11,260	-	11,260
Covenant control	90,535	-	-	90,535	-	90,535
Debt Service:						
Bond principal	-	550,000	-	550,000	(550,000)	-
Bond interest expense	-	98,587	-	98,587	(1,095)	97,492
Paying agent fees	-	200	-	200	-	200
Capital improvements	-	-	1,381,829	1,381,829	(1,381,829)	-
Total Expenditures	<u>1,216,664</u>	<u>658,402</u>	<u>1,381,829</u>	<u>3,256,895</u>	<u>(1,337,598)</u>	<u>1,919,297</u>
PROGRAM REVENUES						
System development fees	<u>-</u>	<u>-</u>	<u>112,060</u>	<u>112,060</u>	<u>-</u>	<u>112,060</u>
Total Program Revenues	<u>-</u>	<u>-</u>	<u>112,060</u>	<u>112,060</u>	<u>-</u>	<u>112,060</u>
Net Program Income (Expenses)	(1,216,664)	(658,402)	(1,269,769)	(3,144,835)	1,337,598	(1,807,237)
GENERAL REVENUES						
Property taxes	1,319,726	641,126	-	1,960,852	-	1,960,852
Specific ownership taxes	158,052	-	-	158,052	-	158,052
Excluded property fees	115,498	53,586	-	169,084	-	169,084
Interest income	14,292	494	-	14,786	-	14,786
Recreation fees	8,020	-	-	8,020	-	8,020
Rental income	-	-	42,272	42,272	-	42,272
Review fees	<u>34,067</u>	<u>-</u>	<u>-</u>	<u>34,067</u>	<u>-</u>	<u>34,067</u>
Total General Revenues	<u>1,649,655</u>	<u>695,206</u>	<u>42,272</u>	<u>2,387,133</u>	<u>-</u>	<u>2,387,133</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	432,991	36,804	(1,227,497)	(757,702)	1,337,598	579,896
OTHER FINANCING SOURCES (USES)						
Transfers (to) from other funds	<u>(880,000)</u>	<u>-</u>	<u>880,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(880,000)</u>	<u>-</u>	<u>880,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(447,009)	36,804	(347,497)	(757,702)	757,702	
CHANGE IN NET POSITION					579,896	579,896
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	<u>1,427,911</u>	<u>33,312</u>	<u>375,585</u>	<u>1,836,808</u>	<u>13,108,432</u>	<u>14,945,240</u>
END OF YEAR	<u>\$ 980,902</u>	<u>\$ 70,116</u>	<u>\$ 28,088</u>	<u>\$ 1,079,106</u>	<u>\$ 14,446,030</u>	<u>\$ 15,525,136</u>

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

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

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

For the Year Ended December 31, 2016

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 1,297,200	1,319,726	\$ 22,526
Specific ownership taxes	150,000	158,052	8,052
Excluded property fees	120,183	115,498	(4,685)
Interest income	4,000	14,292	10,292
Recreation fees	10,000	8,020	(1,980)
Review fees	<u>10,000</u>	<u>34,067</u>	<u>24,067</u>
Total Revenues	<u>1,591,383</u>	<u>1,649,655</u>	<u>58,272</u>
EXPENDITURES			
Treasurers fees	19,459	19,807	(348)
Professional services	47,000	19,039	27,961
Administrative fees	238,900	238,900	-
Insurance	14,000	14,054	(54)
Miscellaneous expenses	21,000	8,650	12,350
Landscape maintenance	455,700	394,868	60,832
Streets maintenance and repairs	430,000	228,764	201,236
Utilities	170,000	190,787	(20,787)
Recreation program costs	8,000	11,260	(3,260)
Covenant control	72,000	90,535	(18,535)
Contingency	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total Expenditures	<u>1,526,059</u>	<u>1,216,664</u>	<u>309,395</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	65,324	432,991	367,667
OTHER FINANCING SOURCES (USES)			
Transfers (to) from other funds	<u>(880,000)</u>	<u>(880,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(880,000)</u>	<u>(880,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(814,676)	(447,009)	367,667
FUND BALANCE:			
BEGINNING OF YEAR	<u>1,475,446</u>	<u>1,427,911</u>	<u>(47,535)</u>
END OF YEAR	<u>\$ 660,770</u>	<u>\$ 980,902</u>	<u>\$ 320,132</u>

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

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Note 1: Summary of Significant Accounting Policies:

The accounting policies of the Inverness Metropolitan Improvement District, (“the District”), located in Arapahoe and Douglas Counties, Colorado (“the Counties”), conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of the Reporting Entity

The District is a quasi-municipal corporation organized October 30, 1980 under the Colorado Special District Act. The District was established primarily to provide for the financing of the acquisition, construction, completion, installation of public improvements including open space, park and recreation facilities and programs, and to improve the transportation system, including roads and a possible mass transit system. The District also administers, enforces and interprets the Inverness Protective Covenants.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization’s governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

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

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

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Basis of Presentation

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Property taxes are recognized as revenues in the year in which they are collected.

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

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

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

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

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Assets, liabilities and Net Position:

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2016, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and instruments

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

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

Interfund Balances

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Estimates

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

Long-Term Obligations

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

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable government or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical or estimated 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 materiality extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated.

Upon completion of construction, the projects are conveyed to the Arapahoe and Douglas Counties, Colorado or recorded in the District's general fixed assets. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

Sidewalks	20 years
Median improvements	30 years
Bridges	20 years
Fiber optics	7 years
Monumentation	10 years
Traffic signals and street lights	10 years
Other	5-10 years

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Property taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the Counties' Assessors generally as of January 1 of each year. The levy is normally set by December 15 by certification to the Counties' Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The Counties' Treasurers collect the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The Counties' Treasurers remits the taxes collected monthly to the District.

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

Fund Equity

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

Nonspendable Fund Balance

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

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$51,500 of the General Fund balance has been restricted in compliance with this requirement. The amount is calculated on 3% of the 2015 expenses less the treasurer's fees.

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

The restricted fund balance in the Debt Service Fund in the amount of \$70,116 is restricted for the payment of the debt service costs associated with the General Obligation Refunding Bonds Series 2012 (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of \$28,088 is restricted for capital improvements within the District.

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Net Position

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

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

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

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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

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

Note 2: Cash and Investments:

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

Statement of Net Position:

Cash and investments	\$ 1,201,086
Cash and investments - restricted	<u>73,845</u>
	<u>\$ 1,274,931</u>

Cash and investments as of December 31, 2015, consist of the following:

Deposits with financial institutions	\$ 51,758
Investments - COLOTRUST	<u>1,223,173</u>
	<u>\$ 1,274,931</u>

Deposits:

Custodial Credit Risk

The Colorado Public Deposit Protection Act, ("PDPA") requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District adopted a policy to comply with State statutes governing investments.

Investments:

Credit Risk

The District's investment policy allows for the District to invest in local government investment pools following state statutes. Colorado statutes specify types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. government agency entities, certain money markets funds, guaranteed investment contracts, and local government pools.

Interest Rate Risk

Colorado Revised Statutes and the District's investment policy limit investment maturities to 5 years or less from the date of purchase. This limit on investment maturities is a means of limiting exposure to fair values declines arising from increasing interest rates.

Concentration Risk

The District's investments are concentrated in local investment pools and other money market funds.

Investment Valuation

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds, (generally held by Bank Trust Departments in their role as paying agent or trustee).

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

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	\$ 1,223,173

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS December 31, 2016

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

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s with a weighted average maturity of under 60 days, a Level 2 investment under the fair value hierarchy. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2016, the District had \$1,223,173 invested in COLOTRUST.

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Note 3: Capital Assets:

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

	<u>01-01-16</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>12-31-16</u>
<u>Capital assets, not being depreciated:</u>				
Construction in progress	\$ 2,748,764	\$ 1,381,615	\$ 3,742,785	\$ 387,594
Water tap fees	66,856	-	-	66,856
Land and easements	6,701	-	-	6,701
Landscaping	4,803,591	214	-	4,803,805
Park and recreational facilities	3,205,148	-	-	3,205,148
Roads	128,034	-	-	128,034
Total capital assets not being depreciated:	10,959,094	1,381,829	3,742,785	8,598,138
<u>Capital assets, being depreciated:</u>				
Sidewalks	3,147,841	890,650	-	4,038,491
Median improvements	341,119	-	-	341,119
Bridge rehabilitation	603,999	-	-	603,999
Pedestrian bridge	1,254,632	-	-	1,254,632
Fiber optics	68,351	-	-	68,351
Signs	2,997,668	306,183	-	3,303,851
Traffic signal/street lights	2,181,383	392,245	-	2,573,628
Other	424,452	2,153,707	-	2,578,159
Total capital assets being depreciated:	11,019,445	3,742,785	-	14,762,230
Less accumulated depreciation for:				
Sidewalks	985,746	122,625	-	1,108,371
Median improvements	187,077	11,371	-	198,448
Bridge rehabilitation	212,774	30,200	-	242,974
Pedestrian bridge	125,464	25,093	-	150,557
Fiber optics	68,350	-	-	68,350
Signs	823,020	261,339	-	1,084,359
Traffic signal/street lights	2,060,585	64,644	-	2,125,229
Other	273,876	80,054	-	353,930
Total accumulated depreciation	4,736,892	595,326	-	5,332,218
Total capital assets, being depreciated, net	6,282,553	3,147,459	-	9,430,012
Governmental activities capital assets, net	<u>\$ 17,241,647</u>	<u>\$ 4,529,288</u>	<u>\$ 3,742,785</u>	<u>\$ 18,028,150</u>

Depreciation expense was charged to functions/programs of the District as follows:

Public works	<u>\$ 595,326</u>
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INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

It is the policy of Arapahoe County and Douglas County to accept the maintenance responsibility for the roads within the counties after a probationary period following completion of construction. However, the District expects to continue to pay for a portion of the normal maintenance expenses. Upon final acceptance of the roads by the counties, the District removes the cost of construction from its capital assets in the government-wide financial statements. In 2016, there were no assets conveyed.

Note 4: Long-Term Debt:

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

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
General Obligation Bonds - 2012	\$4,125,000	\$ -	\$ 550,000	\$3,575,000	\$ 560,000
Total	<u>\$4,125,000</u>	<u>\$ -</u>	<u>\$ 550,000</u>	<u>\$3,575,000</u>	<u>\$ 560,000</u>

General Obligation Improvements Bonds, Series 2012 – On April 3, 2012, the District authorized the issuance of \$5,995,000 of General Obligation Bonds Series 2012 dated April 3, 2012 for refunding of the outstanding Limited Tax General Obligation Bonds Series 1999B and providing \$3,979,000 of new funds for capital improvements. The Bonds are term bonds due on December 1, 2022. The bonds bear interest at 2.390% per annum payable semiannually on each June 1 and December 1, commencing on December 1, 2012. The bonds are subject to mandatory sinking fund redemption commencing on December 1, 2012. The 2012 Bonds are secured by pledged revenues derived by the required mill levy on the property taxes allocated per the mill levy. The District realized a net present value savings of approximately \$69,300 by refunding the Series 1999B Bonds.

The debt service requirements for the Series 2012 Bonds are as follows:

	Principal	Interest	Total
2017	\$ 560,000	\$ 85,443	\$ 645,443
2018	575,000	72,059	647,059
2019	590,000	58,316	648,316
2020	605,000	44,215	649,215
2021	615,000	29,756	644,756
2022	630,000	15,056	645,056
	<u>\$ 3,575,000</u>	<u>\$ 304,845</u>	<u>\$ 3,879,845</u>

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Note 5: Debt Authorization:

At an election held November 3, 1998, a majority of the qualified electors of the District who voted in the elections authorized the issuance of general obligation indebtedness in an amount not to exceed \$7,000,000 for providing public improvements. After the issuance of the Series 1999B Bonds, \$1,250,000 of new improvements remained unissued. An election was held in November 2015, in which the majority of the qualified electors authorized an additional amount not to exceed \$10,000,000 for public improvements. Total authorized but unissued debt at December 31, 2016 is \$11,250,000.

Note 6: Related Party Transactions:

All members of the Board of Directors of the District also serve on the Board of the Inverness Water and Sanitation District.

One member of the District's Board of Directors has an ownership interest in Inverness Properties LLC. During 2016, the District paid \$188,140 to Inverness Properties, LLC for administrative and maintenance services.

Note 7: Agreements:

Excluded Properties – The District has excluded approximately 80 acres under various agreements dated between 2005 and 2014. The District will continue to provide facilities, services and programs to these properties in the same manner and to the same extent as the properties had received prior to the exclusion. These property owners are obligated to pay debt service property taxes for debt existing prior to the exclusion and also pay a tax equivalency fee for general fund services and debt service on bonds issued after the exclusion.

Note 8: Risk Management:

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

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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

Note 9: Tax, Spending and Debt Limitations:

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

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

On November 3, 1998, a majority of the District's electors authorized the District to impose new taxes, increase the tax rate, and increase the present and future mill levies above that for the prior year, not to exceed a total of 6 mills, in addition to the mill levies for general obligation bonds or other multiple fiscal year obligations at this election, or previously approved, and change District tax policies whether or not the change would directly cause a net revenue gain to the District, to the extent necessary or desirable to provide for District capital improvements.

On May 2, 2000, a majority of the District's electors authorized the District to operate without regard to any revenue limitations under TABOR or any other law or the emergency reserve requirement under TABOR

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Note 10: Interfund and Operating Transfers

The transfer of \$880,000 from the General Fund to Capital Projects Fund was transferred for the purpose of capital expenditures.

Note 11: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements:

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

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

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

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

SUPPLEMENTAL INFORMATION

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

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

For the Year Ended December 31, 2016

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 629,662	\$ 641,126	\$ 11,464
Excluded property fees	34,728	53,586	18,858
Interest income	<u>-</u>	<u>494</u>	<u>494</u>
Total Revenues	<u>664,390</u>	<u>695,206</u>	<u>30,816</u>
EXPENDITURES			
Bond principal	550,000	550,000	-
Bond interest expense	98,588	98,587	1
Loan interest	10,000	-	10,000
Paying agent fees	500	200	300
County treasurers' fees	9,445	9,615	(170)
Contingency	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total Expenditures	<u>693,533</u>	<u>658,402</u>	<u>35,131</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(29,143)	36,804	65,947
OTHER FINANCING SOURCES (USES)			
Loan Costs	(40,000)	-	40,000
Loan Proceeds	1,250,000	-	(1,250,000)
Transfers (to) from other funds	<u>(1,210,000)</u>	<u>-</u>	<u>1,210,000</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(29,143)	36,804	65,947
FUND BALANCE:			
BEGINNING OF YEAR	42,963	33,312	(9,651)
END OF YEAR	<u>\$ 13,820</u>	<u>\$ 70,116</u>	<u>\$ 56,296</u>

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

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

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

For the Year Ended December 31, 2016

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Development fees	\$ 104,400	\$ 112,060	7,660
Contributions from other governments	200,000	-	(200,000)
Rental income	<u>45,000</u>	<u>42,272</u>	<u>(2,728)</u>
Total Revenues	<u>349,400</u>	<u>154,332</u>	<u>(195,068)</u>
EXPENDITURES			
Capital improvements	<u>2,675,000</u>	<u>1,381,829</u>	<u>1,293,171</u>
Total Expenditures	<u>2,675,000</u>	<u>1,381,829</u>	<u>1,293,171</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,325,600)	(1,227,497)	1,098,103
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>2,090,000</u>	<u>880,000</u>	<u>(1,210,000)</u>
Total Other Financing Sources (Uses)	<u>2,090,000</u>	<u>880,000</u>	<u>(1,210,000)</u>
NET CHANGE IN FUND BALANCE	(235,600)	(347,497)	(111,897)
FUND BALANCE:			
BEGINNING OF YEAR	<u>238,709</u>	<u>375,585</u>	<u>136,876</u>
END OF YEAR	<u>\$ 3,109</u>	<u>\$ 28,088</u>	<u>\$ 24,979</u>

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

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

Schedule of Debt Service Requirements to Maturity December 31, 2016

5,995,000

General Obligation Refunding Bonds, Series 2012

Dated April 3, 2012

Interest Rate - 2.390% - Payable June 1st and December 1st

Principal Due December 1st

Year Ending				
<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2017	\$ 560,000	\$ 85,443	\$ 645,443	
2018	575,000	72,058	647,058	
2019	590,000	58,316	648,316	
2020	605,000	44,215	649,215	
2021	615,000	29,756	644,756	
2022	630,000	15,056	645,056	
	<u>\$ 3,575,000</u>	<u>\$ 304,844</u>	<u>\$ 3,879,844</u>	

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

INVERNESS METROPOLITAN IMPROVEMENT DISTRICT

Summary of Assessed Valuation, Mill Levy
And Property Taxes Collected
December 31, 2016

	Prior Year					
	Assessed Valuation	Mills Levied				Percent
Year Ended	for Current Year	General	Debt Service	Total Property Taxes		Collected
December 31	Property Tax Levy	Fund	Fund	Levied	Collected	to Levied (1)
2012						
Arapahoe County	\$ 171,188,030	4.40	3.100	\$ 1,283,910		
Arapahoe County (2)	14,135,310	-	1.120	15,832		
Arapahoe County (3)	1,837,320	-	1.120	2,058		
Douglas County (4)	713,230	-	1.120	799		
Douglas County	78,032,820	4.40	3.100	585,246		
	<u>\$ 265,906,710</u>			<u>\$ 1,887,845</u>	<u>\$ 1,804,381</u>	95.58%
2013						
Arapahoe County	\$ 168,181,170	4.20	2.450	\$ 1,118,405		
Arapahoe County (2)	14,482,640	-	0.820	11,808		
Arapahoe County (3)	1,827,380	-	0.820	1,490		
Douglas County (4)	749,590	-	0.820	611		
Douglas County	95,418,960	4.20	2.450	634,536		
	<u>\$ 280,659,740</u>			<u>\$ 1,766,850</u>	<u>\$ 1,712,133</u>	96.90%
2014						
Arapahoe County	\$ 186,332,620	4.10	2.250	\$ 1,183,212		
Arapahoe County (2)	16,942,810	-	0.750	12,686		
Arapahoe County (3)	2,074,020	-	0.750	1,554		
Douglas County (4)	1,165,070	-	0.750	872		
Douglas County	93,826,813	4.10	2.250	595,800		
	<u>\$ 300,341,333</u>			<u>\$ 1,794,124</u>	<u>\$ 1,797,485</u>	100.19%
2015						
Arapahoe County	\$ 181,381,390	4.30	2.350	\$ 1,170,845		
Arapahoe County (2)	15,029,819	-	0.782	11,754		
Arapahoe County (3)	2,153,180	-	0.782	1,684		
Douglas County (4)	1,308,500	-	0.782	1,023		
Douglas County (5)	531,730	-	2.350	1,250		
Douglas County	90,908,250	4.30	2.350	639,880		
	<u>\$ 291,312,869</u>			<u>\$ 1,826,436</u>	<u>\$ 1,731,176</u>	94.78%
12/31/2016						
Arapahoe County	\$ 189,289,580	4.44	2.060	1,230,370		
Arapahoe County (2)	21,103,110	-	0.686	14,477		
Arapahoe County (3)	2,201,769	-	0.686	1,510		
Arapahoe County (4)	1,358,804	-	2.060	2,799		
Arapahoe County (5)	868,865	-	2.060	1,790		
Arapahoe County (6)	1,059,612	-	2.060	2,183		
Douglas County (7)	1,961,540	-	0.686	1,346		
Douglas County (8)	1,803,590	-	2.060	3,715		
Douglas County	102,872,540	4.44	2.060	668,672		
	<u>\$ 322,519,410</u>			<u>\$ 1,926,862</u>	<u>\$ 1,960,852</u>	101.76%
Estimated for the year ending						
12/31/2017						
Arapahoe County	\$ 190,273,151	4.65	2.100	1,284,344		
Douglas County	103,973,770	4.65	2.100	701,823		
	<u>\$ 294,246,921</u>			<u>\$ 1,986,167</u>		

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

- (1) - Property taxes from the Arapahoe and Douglas Counties include abatements from the prior year.
- (2) - Includes the Inverness North Metropolitan District for debt services payments existing prior to the exclusion.
- (3) - Includes the Fairfield Dry Creek Village properties for debt services payments existing prior to the exclusion.
- (4) - Includes the V3 Golf Villas properties for debt services payments existing prior to the exclusion.
- (5) - Includes the community called AMLI for debt services payments existing prior to the exclusion.
- (6) - Includes the community called Golf Villas for debt services payments existing prior to the exclusion.
- (7) - Includes the community called Avalon at Inverness for debt services payments existing prior to the exclusion.
- (8) - Includes the community called County Line Apartments for debt services payments existing prior to the exclusion.

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