

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
Jefferson County, Colorado

FINANCIAL STATEMENTS
December 31, 2016



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Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mountain Shadows Metropolitan District
Jefferson County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Mountain Shadows Metropolitan District (the 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 Mountain Shadows Metropolitan District, as of December 31, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

I

Barnes Griggs & Associates, PC

Other Matters

Required Supplementary Information

Management has omitted 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 the District's basic financial statements. 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 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. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Danner Higgin & Associates, PC

Lakewood, Colorado
September 11, 2017

BASIC FINANCIAL STATEMENTS

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 15,877
Cash and investments - Restricted	1,598,694
Receivable from County Treasurer	7,901
Accounts receivable	5,085
Due from JCMD #1	1,042
Prepaid expense	7,726
Property taxes receivable	949,110
Capital assets - construction in progress	<u>16,906,670</u>
Total assets	<u>19,492,105</u>
DEFERRED OUTFLOW OF RESOURCES	
Cost of bond refunding, net	<u>341,603</u>
Total deferred outflows of resources	<u>341,603</u>
LIABILITIES	
Accounts payable	44,693
Due to JCMD #2	85,207
Accrued interest payable	79,912
Noncurrent liabilities	
Due within one year	199,614
Due in more than one year	<u>23,839,446</u>
Total liabilities	<u>24,248,872</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	<u>949,110</u>
Total deferred inflows of resources	<u>949,110</u>
NET POSITION	
Restricted for:	
Emergency reserves	8,500
Unrestricted	<u>(5,372,774)</u>
Total net position	<u><u>\$ (5,364,274)</u></u>

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Government activities:					
General government	\$ 279,545	\$ 35,665	\$ 54,375	\$ -	\$ (189,505)
Interest and related costs on long-term debt	1,923,292	-	226,561	-	(1,696,731)
	<u>\$ 2,202,837</u>	<u>\$ 35,665</u>	<u>\$ 280,936</u>	<u>\$ -</u>	<u>(1,886,236)</u>
General revenues:					
Property taxes					894,445
Specific ownership taxes					96,126
Net investment income					11,313
Total general revenues					<u>1,001,884</u>
Change in net position					(884,352)
Net position - Beginning					<u>(4,479,922)</u>
Net position - Ending					<u>\$ (5,364,274)</u>

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 15,877	\$ -	\$ -	\$ 15,877
Cash and investments - Restricted	8,500	82,764	1,507,430	1,598,694
Receivable from County Treasurer	1,529	6,372	-	7,901
Accounts receivable	5,085	-	-	5,085
Due from Jefferson Center District No. 1	1,042	-	-	1,042
Prepaid expense	7,726	-	-	7,726
Property taxes receivable	183,699	765,411	-	949,110
Total assets	<u>\$ 223,458</u>	<u>\$ 854,547</u>	<u>\$ 1,507,430</u>	<u>\$ 2,585,435</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Accounts payable	\$ 44,693	\$ -	\$ -	\$ 44,693
Due to Jefferson Center District No. 2	85,207	-	-	85,207
Total liabilities	<u>129,900</u>	<u>-</u>	<u>-</u>	<u>129,900</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred property tax revenue	183,699	765,411	-	949,110
Total deferred inflows of resources	<u>183,699</u>	<u>765,411</u>	<u>-</u>	<u>949,110</u>
FUND BALANCES				
Nonspendable				
Prepaid expense	7,726	-	-	7,726
Restricted for:				
Emergency reserves	8,500	-	-	8,500
Debt service	-	89,136	-	89,136
Capital projects	-	-	1,507,430	1,507,430
Unassigned	(106,367)	-	-	(106,367)
Total fund balances	<u>(90,141)</u>	<u>89,136</u>	<u>1,507,430</u>	<u>1,506,425</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 223,458</u>	<u>\$ 854,547</u>	<u>\$ 1,507,430</u>	

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

Capital assets are reported as assets on the Statement of Net Position but are recorded as expenditures in the funds	16,906,670
Capital assets	
Other long-term assets and deferred outflows of resources are not available to pay for current period expenditures and, therefore, are expensed in the funds.	
Cost of refunding, net	341,603
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds payable	(20,650,000)
Bond premium	(88,322)
Accrued interest on bonds payable	(79,912)
Accrued and unpaid interest on Series 2016B Bonds	(191,516)
Developer advances payable	(3,008,120)
Accrued interest on Developer advances	(101,102)
	<u>\$ (5,364,274)</u>

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

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 173,118	\$ 721,327	\$ -	\$ 894,445
Specific ownership taxes	18,605	77,521	-	96,126
Urban renewal tax - District mill levy	54,375	226,561	-	280,936
Maintenance fees	34,465	-	-	34,465
Net investment income	354	3,493	7,466	11,313
Permit and rental fees	1,200	-	-	1,200
Total revenues	<u>282,117</u>	<u>1,028,902</u>	<u>7,466</u>	<u>1,318,485</u>
EXPENDITURES				
General and administration				
Accounting	21,063	-	-	21,063
Audit	4,700	-	-	4,700
County Treasurer's fees	2,598	10,823	-	13,421
Election	1,864	-	-	1,864
Engineering	4,731	-	-	4,731
Facilities management	23,070	-	-	23,070
Insurance and bonds	7,514	-	-	7,514
Legal	40,440	-	-	40,440
Miscellaneous	1,448	-	-	1,448
Transfer to Jefferson Center District No. 2	20,182	-	-	20,182
Operations and maintenance				
Irrigation repairs	17,686	-	-	17,686
Gas and electric	802	-	-	802
Landscape improvements	7,469	-	-	7,469
Landscape maintenance	46,119	-	-	46,119
Retention pond maintenance	3,551	-	-	3,551
Site clean up and dog waste	5,157	-	-	5,157
Snow plowing	13,796	-	-	13,796
Water and sewer	57,355	-	-	57,355
Debt service				
Paying agent fees	-	688	-	688
Bond interest	-	558,872	-	558,872
Bond principal	-	590,000	-	590,000
Capital outlay	-	-	3,956,052	3,956,052
Bond issue costs	-	-	750,843	750,843
Repay Developer advances - interest	-	-	1,189,532	1,189,532
Total expenditures	<u>279,545</u>	<u>1,160,383</u>	<u>5,896,427</u>	<u>7,336,355</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,572</u>	<u>(131,481)</u>	<u>(5,888,961)</u>	<u>(6,017,870)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	11,669,458	9,390,542	21,060,000
Bond premium	-	-	92,972	92,972
Developer advance	-	-	3,956,052	3,956,052
Repay Developer advances - principal	-	-	(6,030,587)	(6,030,587)
Payment to refunding escrow	-	(11,486,158)	-	(11,486,158)
Transfer (to) from other funds	-	5,829	(5,829)	-
Total other financing sources (uses)	<u>-</u>	<u>189,129</u>	<u>7,403,150</u>	<u>7,592,279</u>
NET CHANGE IN FUND BALANCES	2,572	57,648	1,514,189	1,574,409
FUND BALANCES (DEFICITS) - BEGINNING OF YEAR	<u>(92,713)</u>	<u>31,488</u>	<u>(6,759)</u>	<u>(67,984)</u>
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ (90,141)</u>	<u>\$ 89,136</u>	<u>\$ 1,507,430</u>	<u>\$ 1,506,425</u>

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) 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 changes in fund balances - Total governmental funds	\$ 1,574,409
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Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciation.

Capital outlay	3,956,052
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Long-term debt (e.g., bonds, Developer advances) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Bond issuance	(21,060,000)
Bond premium	(92,972)
Developer advances	(3,956,052)
Repayment of developer advance	6,030,587
Payment to refunding escrow	11,486,158
Principal payment	590,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest on Developer advances - Change in liability	1,032,122
Accrued interest on bonds - Change in liability	(426,460)
Current year cost of refunding	(22,846)
Current year bond issue premium	4,650

Change in net position of governmental activities	<u>\$ (884,352)</u>
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These financial statements should be read only in connection with
the accompanying notes to financial statements.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES (DEFICITS) - BUDGET AND ACTUAL
December 31, 2016**

	Budget Amounts		Actual	Variance- Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 173,174	\$ 173,174	\$ 173,118	\$ (56)
Specific ownership taxes	16,170	18,420	18,605	185
Urban renewal tax - District mill levy	57,892	57,892	54,375	(3,517)
Maintenance fees	16,950	25,990	34,465	8,475
Net investment income	200	350	354	4
Permit and rental fees	-	1,200	1,200	-
Total revenues	<u>264,386</u>	<u>277,026</u>	<u>282,117</u>	<u>5,091</u>
EXPENDITURES				
General and administration				
Accounting	25,000	23,000	21,063	1,937
Audit	4,800	4,700	4,700	-
County Treasurer's fees	2,598	2,598	2,598	-
Election	2,500	1,864	1,864	-
Engineering	-	4,731	4,731	-
Facilities management	17,520	23,070	23,070	-
Insurance and bonds	3,100	7,514	7,514	-
Legal	45,000	40,000	40,440	(440)
Miscellaneous	500	1,500	1,448	52
Office supplies	1,125	-	-	-
Transfer to Jefferson Center District No. 2	21,097	21,097	20,182	915
Operations and maintenance				
Irrigation repairs	4,500	17,000	17,686	(686)
Gas and electric	10,000	1,000	802	198
Landscape improvements	10,000	10,000	7,469	2,531
Landscape maintenance	43,392	46,000	46,119	(119)
Mulch to rock replacement	1,500	1,500	-	1,500
Retention pond maintenance	4,000	4,000	3,551	449
Site clean up and dog waste	1,250	5,500	5,157	343
Snow plowing	10,000	15,000	13,796	1,204
Sod repair	1,100	1,100	-	1,100
Tract conveyance	600	-	-	-
Water and sewer	20,000	50,000	57,355	(7,355)
Contingency	-	8,826	-	8,826
Total expenditures	<u>229,582</u>	<u>290,000</u>	<u>279,545</u>	<u>10,455</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>34,804</u>	<u>(12,974)</u>	<u>2,572</u>	<u>15,546</u>
OTHER FINANCING SOURCES (USES)				
Developer advance	35,000	115,000	-	(115,000)
Total other financing sources (uses)	<u>35,000</u>	<u>115,000</u>	<u>-</u>	<u>(115,000)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	69,804	102,026	2,572	(99,454)
FUND BALANCES -				
BEGINNING OF YEAR (DEFICITS)	<u>(61,660)</u>	<u>(92,713)</u>	<u>(92,713)</u>	<u>-</u>
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ 8,144</u>	<u>\$ 9,313</u>	<u>\$ (90,141)</u>	<u>\$ (99,454)</u>

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 1 - DEFINITION OF REPORTING ENTITY

Mountain Shadows Metropolitan District (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for the County of Jefferson, Colorado in June 2004 and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes).

The District was organized along with Jefferson Center Metropolitan District No. 1, Jefferson Center Metropolitan District No. 2, Vauxmont Metropolitan District, Cimarron Metropolitan District, and Canyon Pines Metropolitan District (collectively, the Districts) and serves a service area which is located primarily in the City of Arvada, with some portions outside the City in unincorporated Jefferson County. The Districts were established to finance and construct water, sanitary and storm sewer, streets, limited fire protection services, park and recreation, safety protection, mosquito control, television relay and transmission and transportation facilities and services. Jefferson Center Metropolitan District No. 2 (the Service District) is responsible for managing construction, operation and maintenance of certain regional improvements to benefit the service area as well as providing certain administrative services for the Districts. The District is responsible for providing certain funding needed to support the Service District's provision of services as well as providing for its own operations and maintenance and debt service.

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 organization, nor is the District a component unit of any other primary governmental entity.

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

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. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities demonstrates the degree to which the direct 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. Redemption of bonds and developer advances 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 District 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 and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

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.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term 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.

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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 appropriation is at the total fund expenditures and other financing uses 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.

The District has amended its annual budget for the year ended December 31, 2016.

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 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.

Investments are carried at fair value.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the 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.

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization

Original Issue Discount/Premium

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the new bonds using the effective interest method.

Cost of Bond Refunding

In the government-wide financial statements, the deferred cost of bond refunding is being amortized using the interest method over the life of the defeased bonds. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a deferred outflow of resources.

Deferred Inflow/Outflow of Resources

In addition to assets, the statement of net position reports 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 government only has one item that qualifies for reporting in this category. Accordingly, the item, *cost of bond refunding*, is deferred and recognized as an outflow of resources.

In addition to liabilities, the statement of net position reports 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 government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amounts become available.

Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by 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* – 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 criteria described above.

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

Deficit Fund Balance

The General Fund reported a deficit in the fund financial statements as of December 31, 2016. The deficit will be eliminated with the receipt of future property taxes and a developer advance.

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
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	\$ 15,877
Cash and investments – Restricted	<u>1,598,694</u>
Total cash and investments	<u>\$ 1,614,571</u>

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

Cash	\$ 3,932
Investments	<u>1,610,639</u>
Total cash and investments	<u>\$ 1,614,571</u>

Deposits with Financial Institutions

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 had a bank balance and a carrying balance of \$3,932.

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 or investment custodial risk disclosure requirements for investments that are in the possession of another party.

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. Guaranteed investment contracts not purchased with bond proceeds, are limited to maturities of three years or less.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

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

Fair Value Measurement and Application

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; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

The District had invested in COLOTRUST, an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs.

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

Investment	Maturity	Fair Value
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	\$ 1,513,394
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>97,245</u>
		<u>\$ 1,610,639</u>

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

CSAFE

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 CSAFE. CSAFE is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. 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. CSAFE is rated AAAM by Standard & Poor's.

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. 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. COLOTRUST is rated AAAM by Standard & Poor's.

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance at January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at December 31, 2016</u>
Governmental Type Activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 12,950,618	\$ 3,956,052	\$ -	\$ 16,906,670
Total capital assets, not being depreciated	<u>\$ 12,950,618</u>	<u>\$ 3,956,052</u>	<u>\$ -</u>	<u>\$ 16,906,670</u>

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Upon completion and acceptance, certain fixed assets will be conveyed to other local governments. The District will be responsible for the operation and maintenance of some landscape and park tracts.

NOTE 5 - LONG-TERM OBLIGATIONS

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

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Retirement of Long-Term Obligations</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
G.O. Bonds - Series 2007	\$ 11,095,000	\$ -	\$ 11,095,000	\$ -	\$ -
G.O. Bonds - Series 2016A		17,455,000	410,000	17,045,000	195,000
G.O. Bonds - Series 2016B		3,605,000	-	3,605,000	-
Accrued interest -					
Series 2016 B Bonds		191,516	-	191,516	-
Bond premium	-	92,972	4,650	88,322	4,614
Developer advances	5,082,655	3,956,052	6,030,587	3,008,120	-
Accrued interest -					
Developer advances	1,133,224	157,410	1,189,532	101,102	-
	<u>\$ 17,310,879</u>	<u>\$ 25,457,950</u>	<u>\$ 18,729,769</u>	<u>\$ 24,039,060</u>	<u>\$ 199,614</u>

Series 2007 Bond

The District issued \$11,400,000 of General Obligation Bonds (Limited Tax Convertible to Unlimited Tax) Series 2007 (2007 Bonds) dated March 19, 2007, for the purpose of payment of the bond issuance costs and construction of capital improvements. The bonds bear interest at the rate of 5.5% on \$4,000,000 due December 1, 2027, and 5.625% on \$7,400,000 due December 1, 2037, payable semiannually on each June 1 and December 1. The bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2012. The 2007 Bonds are secured by Pledged Revenues including a "Required Mill Levy" not to exceed 50 mills and not less than 41.5 mills, the specific ownership taxes attributable to the Required Mill Levy and any other legally available revenues of the District.

During 2016, all of the Series 2007 Bonds were advanced refunded and defeased (debt legally satisfied) through the issuance of the Series 2016 Bonds (see below). The defeased bonds are not considered a liability of the District since sufficient funds in the amount of \$11,486,157 were deposited with a trustee and invested in U.S. Government securities for the purpose of paying the principal and interest of the defeased bonds until the call date, at which point the bonds were repaid in their entirety from the remaining funds in the escrow account. As of December 31, 2016, the outstanding principal balance of the defeased bonds is \$0-.

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Series 2016 A & B Bonds

On March 31, 2016 the District issued \$17,455,000 General Obligation Refunding and Improvement Senior Bonds and \$3,605,000 General Obligation Improvement Subordinate Bonds. The proceeds from the sale of the Senior Bonds will be used to: (i) pay the costs of refunding the General Obligation Bonds (Limited Tax Convertible to Unlimited Tax), Series 2007; (ii) finance public improvements related to the Development; and (iii) pay the costs of issuing the Senior Bonds. The proceeds from the sale of the Subordinate Bonds will be used to: (i) finance public improvements related to the Development; and (ii) pay the costs of issuing the Subordinate Bonds.

The Senior Bonds bear interest at 3.25% to 5.00%, payable semi-annually on June 1 and December 1, beginning on June 1, 2016. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2016. The Senior Bonds mature on December 1, 2046, and are subject to optional redemption on December 1, 2025, and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

The Senior Bonds are secured by and payable solely from and to the extent of the Senior Pledged Revenue, which includes monies derived from the following, net of costs of collection: (i) the Senior Required Mill Levy; (ii) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Senior Required Mill Levy; (iii) the Capital Pledge Agreement Revenue not to exceed \$180,000 in any fiscal year; and (iv) any other legally available amounts that the District may designate, in its sole discretion, held under the Senior Indenture. The Senior Bonds are also secured by amounts accumulated in the Surplus Fund, if any.

Prior to the date the Senior Debt to Assessed Ratio is equal to 50% or less, Senior Pledged Revenue that is not needed to pay debt service on the Senior Bonds in any year will be deposited to and held in the Surplus Fund, up to the Maximum Surplus Amount of \$300,000.

As of December 31, 2016, the balance of the Surplus Fund is \$-0-.

The Subordinate Bonds bear interest at 7.5% per annum and payable annually on December 15, but only to the extent of available Subordinate Pledged Revenue. The Subordinate Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal or interest. In the event any amounts due and owing on the Subordinate Bonds remain outstanding on December 15, 2055, such amounts shall be extinguished and no longer be due and outstanding. Unpaid interest on the Subordinate Bonds compounds annually on each December 15.

The Subordinate Bonds are payable solely from and to the extent of the Subordinate Pledged Revenue, which includes monies derived from the following, net of costs of collection: (i) the Required Subordinate Mill Levy; (ii) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Subordinate Mill Levy; (iii) the Excess Senior Pledged Revenue; and (iv) any other legally available amounts that the District may designate held under the Subordinate Indenture.

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Excess Senior Pledged Revenue is defined as, generally, revenue available for payment of the 2016B Subordinate Bonds that is first pledged to the 2016A Senior Bonds, including Subordinate Capital Pledge Agreement Revenue and amounts released from any surplus funds securing the Senior Bonds. "Subordinate Capital Pledge Agreement Revenue" is defined as, generally, a portion of the tax increment revenues attributable to certain property within the District's boundaries received by the District pursuant to the Capital Pledge Agreement, not to exceed \$180,000 in any fiscal year.

The Senior Indenture provides that a Required Mill Levy (the "Senior Required Mill Levy") be imposed in an amount sufficient, when combined with Capital Pledge Agreement Revenue available or expected to be received before the following December 1st, to pay the principal of, premium if any, and interest on the Senior Bonds, as they become due and payable, but not in excess of 50 mills (subject to adjustment for changes occurring after January 1, 2004, in the method of calculating assessed valuation), and for so long as the Senior Surplus Fund is less than the Maximum Surplus Amount of \$300,000, not less than 40 mills (as adjusted). In the event the minimum mill levy would produce revenue in excess of that required to repay all principal and interest on the Senior Bonds, then such minimum mill levy shall be reduced to a mill levy which will produce revenue sufficient to repay all principal and interest on the Senior Bonds.

Once the Senior Debt to Assessed Ratio is equal to or less than 50%, the Senior Required Mill Levy is defined as a mill levy imposed upon all taxable property of the District each year in an amount, that when combined with Capital Pledge Agreement Revenue available or expected to be received before the following December 1st, will be sufficient to pay the principal of, premium if any, and interest on the Senior Bonds as the same become due and payable, without limitation of rate and in amounts sufficient to make such payments when due. For purposes of the forecast, the current year Senior Debt to Assessed Ratio is calculated based on the outstanding Senior Debt at the end of the current year and the assessed valuation for the subsequent year.

The Subordinate Indenture defines the Required Subordinate Mill Levy as an ad valorem mill levy imposed upon all taxable property of the District in an amount equal to 50 mills (subject to adjustment) less the Senior Required Mill Levy. As a result, the Required Subordinate Mill Levy will be zero for any year in which the Senior Required Mill Levy equals 50 mills (as adjusted).

Subsequent to year end, the residential assessment rate was changed from 7.96% to 7.20%. Based upon the May 2017 preliminary assessed valuations, the service plan limitation of 50.000 mills could be increased to 55.278 mills. The final adjusted mill levy will be based upon final assessed value for collection in budget year 2018.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The District's long-term obligations relating to the 2016A Senior General Obligation Bonds will mature as follows:

	Governmental Activities		
	Principal	Interest	Total
2017	\$ 195,000	\$ 816,575	\$ 1,011,575
2018	225,000	810,238	1,035,238
2019	230,000	802,925	1,032,925
2020	260,000	795,450	1,055,450
2021	265,000	787,000	1,052,000
2022-2026	1,710,000	3,754,800	5,464,800
2027-2031	2,400,000	3,317,000	5,717,000
2032-2036	3,070,000	2,631,250	5,701,250
2037-2041	3,675,000	1,828,000	5,503,000
2042-2046	5,015,000	782,250	5,797,250
	<u>\$ 17,045,000</u>	<u>\$ 16,325,488</u>	<u>\$ 33,370,488</u>

Operating Funding Agreement - Alkire Investments, Inc.

On February 14, 2007, the District and Alkire Investments, Inc. (the Developer) entered into an Operation funding Agreement whereby the Developer will make advances, as necessary and up to an aggregate limit of \$100,000 to fund any anticipated shortfall in revenues available for operations and maintenance expenses from 2007 through 2010. The advances shall be repaid by the District at an interest rate of 7.5% per annum. The term for repayment expires on December 31, 2027. At December 31, 2016, the District owed \$63,714 in principal and \$41,284 in accrued interest.

Developer Advances Payable - Landscape Maintenance and Operation Funding Agreement

On January 25, 2011, the District and WCH Investments, LLC entered into a Landscape Maintenance and Operation Funding Agreement effective January 1, 2011. Per the Agreement, WCH Investments, LLC shall make contributions to fund the Annual Landscape Maintenance Shortfall, through the year of stabilization, both as defined in the agreement and will not be reimbursed in the future for these contributions. Per the agreement, the District agrees to collect the Maintenance Fee and beginning in tax year 2011, the District will assess 12 mills on all taxable property in the District for purposes of offsetting WCH Investments, LLC's funding obligation thereunder. In addition, WCH Investments, LLC will make advances, as necessary and up to an aggregate limit of \$75,000, to fund any anticipated shortfall in revenues available for operations and maintenance expense from 2011 through 2016. The advances shall be repaid by the District at an interest rate of 7.5% per annum. The term for repayment expires on December 31, 2040. At December 31, 2016, the District owed \$5,748 in principal and \$2,373 in accrued interest.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Developer Advances Payable - Facilities Acquisition Agreement

Pursuant to a Facilities Acquisition Agreement dated November 28, 2006, the District has agreed to reimburse Alkire Investments, Inc. for certain infrastructure construction costs within the Mountain Shadows development (aka Wild Grass) up to a maximum of \$18,000,000. Interest accrues until paid at the rate of 7.5% per annum. The term for repayment expires December 31, 2046, unless terminated earlier. As of December 31, 2010, the District had reimbursed \$7,905,505 of a total of \$9,063,286 of these costs, with \$1,152,306 remaining payable and accrued interest of \$127,943. On January 25, 2011, the District and Alkire Investments, Inc. signed a Termination of Facilities Acquisition Agreement effective December 31, 2010, and the remaining amount due will be repaid to WCH Investments, Inc. under the Facilities Funding and Acquisition Agreement explained below.

Developer Advances Payable - Facilities Funding and Acquisition Agreement - WCH Investments, Inc.

Pursuant to a Facilities Funding and Acquisition Agreement (WCH FFAA) dated January 25, 2011, effective December 31, 2010, the District has agreed to reimburse WCH Investments, Inc. for the above Alkire Investments, Inc. remaining reimbursable costs, including interest. Also, pursuant to the agreement, WCH Investments, Inc. will fund the cost of construction of improvements paid for by the District for fiscal years 2011 through 2016, up to a maximum of \$100,000. In addition, the District will reimburse WCH Investments, Inc. for certain infrastructure construction costs within the Mountain Shadows development. The District agrees to reimburse WCH Investments, Inc. for all Developer Advances and/or Verified Costs, together with interest thereon up to a maximum amount of \$12,000,000. Interest accrues from the date of the Developer Advances or the date the Verified costs were incurred, until paid at the rate of 7.5% per annum.

Payment under the WCH FFAA has priority over any payments under the WCT FAA described below. The term for repayment expires December 31, 2040, unless terminated earlier. At December 31, 2016, the District owed \$2,938,658 in principal and \$57,445 in accrued interest under this agreement.

Developer Advances Payable – Facilities Acquisition Agreement – Whisper Creek Two, LLC

Pursuant to a Facilities Acquisition Agreement (WCT FAA) dated January 25, 2011, effective December 31, 2010, the District has agreed to reimburse Whisper Creek Two, LLC for the reimbursement of verified costs related to the acquisition of improvements up to a maximum amount of \$10,000,000. Interest accrues from the date the Verified Costs were incurred, until paid at the rate of 7.5% per annum. Per the agreement, payments by the District to the Developer shall be applied first to the reimbursement of acquisition of improvements under the WCH FFAA and second under this agreement. The term for repayment expires December 31, 2040, unless terminated earlier. The District has paid off all obligations under this agreement as of December 31, 2016.

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Debt Authorization

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$19,562,128. Pursuant to the July 26, 2005, Facilities Funding, Construction and Operations Agreement, amended November 28, 2006, December 15, 2009, November 1, 2010, and June 11, 2015 (see Note 8), the District is limited to issuing \$40,000,000 in debt.

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

NOTE 6 - NET POSITION

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

The restricted component of net position consists of assets 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. The District had a restricted net position as of December 31, 2016, as follows:

	Governmental Activities
Restricted net position:	
Emergencies	\$ 8,500
Total	<u>\$ 8,500</u>

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvements, which will be conveyed or were conveyed to other governmental entities.

NOTE 7 - RELATED PARTIES

The Developers of the property which constitutes the District is WCH Investments, LLC and Whisper Creek Two, LLC. The majority of the members of the Board of Directors of the District are owners of or are otherwise associated with the Developers and may have conflicts of interest in dealing with the District.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 8 - AGREEMENTS

Intergovernmental Agreement

The Districts entered into a Facilities Funding, Construction and Operations Agreement (FFCOA) on July 26, 2005, as amended on November 28, 2006, December 15, 2009, November 1, 2010, and June 11, 2015, to coordinate the financing, construction, operation and maintenance of the public improvements within the service area of the Districts and to establish the relationship between the respective responsibilities of the Service District and the Financing Districts. The FFCOA provides a framework for the equitable allocation over time among the Districts of the costs of administration of the Districts and the costs of financing, constructing, operating and maintaining the public improvements contemplated therein. The Service District is generally responsible for providing the financing, construction, operations and maintenance of certain primary public infrastructure to serve the entire service area. To the extent none of the financing Districts have elected otherwise, the Service District is also responsible for providing administrative services for the Financing Districts based upon each Financing District's agreement to pay its proportionate share of costs thereof. Effective January 1, 2008, the District elected to perform its own administrative services but shall nonetheless remain obligated to pay their proportionate share of the Service District's direct administrative expenses. Funding for this obligation is provided by the imposition of a maximum general operations mill levy of 3 mills.

The Financing Districts are each generally responsible for financing, constructing, operating, and maintaining the public improvements necessary to serve development within their respective boundaries. The FFCOA provides a limitation on the issuance of indebtedness by the Districts in the amount of \$450 million of total aggregate debt by all of the Districts. Per the FFCOA, the District is limited to issuing \$40,000,000 of debt. The FFCOA is intended to constitute a multiple fiscal year financial obligation of the Districts, and as such, it was submitted to and approved by the electorates of each of the Districts prior to being executed. Per the FFCOA, if on November 1, 2030, the District has not used the full amount of its Debt Allocation by issuing debt in the amounts authorized, the amount of the unissued debt allocation shall automatically revert back to Jefferson Center Metropolitan District No. 1.

Capital Pledge Agreement

On November 1, 2010, the District and Jefferson Center Metropolitan District No. 2 (JCMD2) entered into that certain Capital Pledge Agreement (JCMD No. 2/Mountain Shadows – 2010 Capital Pledge Agreement), and amended on May 5, 2015, whereby, in order to facilitate the provision of certain public infrastructure for the benefit of property within the service area of the District and the boundaries of JCMD2, JCMD2 determined to pledge to the District certain tax increment revenues received by JCMD2 pursuant to the Amended and Restated Master Redevelopment Agreement (Amended MRA) dated January 11, 2010, between the City of Arvada, JCMD2 and the Arvada Urban Renewal Authority. Pursuant to the Capital Pledge Agreement, the District is obligated to finance and/or acquire certain facilities described therein and, in exchange for the provision of such facilities, JCMD2 agrees to reimburse the District for the costs associated with such facilities in an amount not to exceed \$7,000,000, plus interest and bond costs.

Interest accrues under the Capital Pledge Agreement at the rate of 8% per annum, computed on the basis of a 365-day year, actual days elapsed. Interest is payable each December 1 and June 1 to the District or its designee.

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 - AGREEMENTS (CONTINUED)

The reimbursement obligation of JCMD2 under the Capital Pledge Agreement is a limited obligation of JCMD2, payable solely from and to the extent of certain pledged revenues described therein, including 42% of the tax increment revenues received by JCMD2 pursuant to the Amended MRA from certain specifically identified properties within the Northwest Arvada Urban Renewal Area. JCMD2's reimbursement obligation to the District under the Capital Pledge Agreement is further subject to other reimbursement priorities as set forth therein. The Capital Pledge Agreement terminates upon the later of: 1) the date on which reimbursement has been made in full thereunder; or 2) the Northwest Financing Termination Date (as defined in the Amended MRA). As of December 31, 2016, the principal amount of the reimbursement obligation under the Capital Pledge Agreement was \$7,000,000 along with accrued interest in the amount of \$4,816,851. Subsequent to December 31, 2016, the Agreement was amended and restated to specify the specific property boundaries from which pledged revenues to the District are derived.

NOTE 9 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, §24-10-101, et seq., C.R.S., 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). 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 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 10 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to 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.

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.

MOUNTAIN SHADOWS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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.

On May 4, 2004, the District voters passed an election question allowing the District to increase property taxes up to \$100,000 annually, without limitation of rate, to pay the District's operations, maintenance and other expenses.

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.

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

SUPPLEMENTARY INFORMATION

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 721,557	\$ 721,557	\$ 721,327	\$ (230)
Specific ownership taxes	67,390	76,748	77,521	773
Urban renewal tax - District mill levy	241,218	241,218	226,561	(14,657)
Urban renewal tax - TIF	-	155,641	-	(155,641)
Net investment income	200	3,000	3,493	493
Total revenues	<u>1,030,365</u>	<u>1,198,164</u>	<u>1,028,902</u>	<u>(169,262)</u>
EXPENDITURES				
Paying agent fees	2,500	3,188	688	2,500
County Treasurer's fees	10,823	10,823	10,823	-
Bond interest - Series 2007	620,125	3,300	3,300	-
Bond interest - Series 2016A	-	555,572	555,572	-
Bond principal - Series 2007	180,000	180,000	180,000	-
Bond principal - Series 2016A	-	410,000	410,000	-
Contingency	-	100,959	-	100,959
Total expenditures	<u>813,448</u>	<u>1,263,842</u>	<u>1,160,383</u>	<u>103,459</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	216,917	(65,678)	(131,481)	(65,803)
OTHER FINANCING SOURCES (USES)				
Bond issuance	11,695,603	11,669,458	11,669,458	-
Payment to refunding escrow	(11,695,603)	(11,486,158)	(11,486,158)	-
Transfers from Capital Projects Fund	-	-	5,829	5,829
Total other financing sources (uses)	<u>-</u>	<u>183,300</u>	<u>189,129</u>	<u>5,829</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	216,917	117,622	57,648	(59,974)
FUND BALANCES - BEGINNING OF YEAR	<u>35,231</u>	<u>31,488</u>	<u>31,488</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 252,148</u>	<u>\$ 149,110</u>	<u>\$ 89,136</u>	<u>\$ (59,974)</u>

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Budget Amounts		Actual	Variance- Positive (Negative)
	Original	Final		
REVENUES				
Net investment income	\$ -	\$ 7,300	\$ 7,466	\$ 166
TIF - daycare parcel	-	77,251	-	(77,251)
TIF - prior to 2016	-	269,089	-	(269,089)
TIF - non pledge	-	299,442	-	(299,442)
Total revenues	<u>-</u>	<u>653,082</u>	<u>7,466</u>	<u>(645,616)</u>
EXPENDITURES				
Accounting	10,000	-	-	-
Bond issue costs	619,560	745,199	750,843	(5,644)
Legal	10,000	-	-	-
Capital outlay	-	4,009,269	3,956,052	53,217
Contingency	-	525,413	-	525,413
Repay Developer advances - interest	-	1,189,532	1,189,532	-
Total expenditures	<u>639,560</u>	<u>6,469,413</u>	<u>5,896,427</u>	<u>572,986</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(639,560)</u>	<u>(5,816,331)</u>	<u>(5,888,961)</u>	<u>(72,630)</u>
OTHER FINANCING SOURCES (USES)				
Bond issuance	6,126,397	9,390,542	9,390,542	-
Bond premium	-	92,972	92,972	-
Developer advance	-	4,009,269	3,956,052	(53,217)
Repay Developer advances - principal	(5,486,837)	(5,486,837)	(6,030,587)	(543,750)
Transfer to Debt Service Fund	-	-	(5,829)	(5,829)
Total other financing sources (uses)	<u>639,560</u>	<u>8,005,946</u>	<u>7,403,150</u>	<u>(602,796)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)				
	-	2,189,615	1,514,189	(675,426)
FUND BALANCES- BEGINNING OF YEAR				
	<u>-</u>	<u>(6,759)</u>	<u>(6,759)</u>	<u>-</u>
FUND BALANCES - END OF YEAR				
	<u>\$ -</u>	<u>\$ 2,182,856</u>	<u>\$ 1,507,430</u>	<u>\$ (675,426)</u>

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2016**

Bonds and Interest Maturing in the Year Ending December 31,	\$17,455,000		
	General Obligation Refunding and Improvement Bonds (Limited Tax Convertible to Unlimited Tax) Series 2016A, Dated March 31, 2016 Interest Rate of 3.25% to 5.00% Payable June 1 and December 1 Principal Due December 1		
	Principal	Interest	Total
2017	\$ 195,000	\$ 816,575	\$ 1,011,575
2018	225,000	810,238	1,035,238
2019	230,000	802,925	1,032,925
2020	260,000	795,450	1,055,450
2021	265,000	787,000	1,052,000
2022	300,000	776,400	1,076,400
2023	310,000	764,400	1,074,400
2024	345,000	752,000	1,097,000
2025	360,000	738,200	1,098,200
2026	395,000	723,800	1,118,800
2027	410,000	708,000	1,118,000
2028	450,000	687,500	1,137,500
2029	475,000	665,000	1,140,000
2030	520,000	641,250	1,161,250
2031	545,000	615,250	1,160,250
2032	595,000	588,000	1,183,000
2033	625,000	558,250	1,183,250
2034	680,000	527,000	1,207,000
2035	560,000	493,000	1,053,000
2036	610,000	465,000	1,075,000
2037	640,000	434,500	1,074,500
2038	695,000	402,500	1,097,500
2039	730,000	367,750	1,097,750
2040	785,000	331,250	1,116,250
2041	825,000	292,000	1,117,000
2042	890,000	250,750	1,140,750
2043	935,000	206,250	1,141,250
2044	1,005,000	159,500	1,164,500
2045	1,055,000	109,250	1,164,250
2046	1,130,000	56,500	1,186,500
	\$ 17,045,000	\$ 16,325,488	\$ 33,370,488

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT
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>General</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2012	\$ 6,573,877	12.000	50.000	\$ 407,581	\$ 403,470	98.99%
2013	7,388,417	12.000	50.000	458,082	458,023	99.99%
2014	9,449,247	12.000	50.000	585,853	581,985	99.34%
2015	10,960,598	12.000	50.000	679,557	678,756	99.88%
2016	14,431,147	12.000	50.000	894,731	894,445	99.97%
Estimated for the year ending December 31, 2017	\$ 15,308,223	12.000	50.000	\$ 949,110		

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.