

**LORSON RANCH METROPOLITAN DISTRICT NO. 1**  
**El Paso County, Colorado**

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



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## **Independent Auditor's Report**

Board of Directors

### **Lorson Ranch Metropolitan District No. 1**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Lorson Ranch Metropolitan District No. 1 as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lorson Ranch Metropolitan District No. 1 as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund and the special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Economic Dependency**

The District has not yet established a revenue base sufficient to pay its operational expenditures. As discussed in Note 9, the District is dependent upon the Developer of the District's service area to provide funds for such expenditures.

## **Other Matters**

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements are not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*L. Paul Goedecke P.C.*

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

## **BASIC FINANCIAL STATEMENTS**

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

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 64,022
Cash and investments - Restricted	151,625
Due from other governments	14,729
Account receivable - County Treasurer	5
Property taxes receivable	386
Capital assets, not being depreciated	5,517,958
Capital assets, net	1,063,792
Total assets	6,812,517
<b>LIABILITIES</b>	
Accounts payable	15,456
Noncurrent liabilities:	
Due within one year	93,597
Due in more than one year	10,396,840
Total liabilities	10,505,893
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	386
Total deferred inflows of resources	386
<b>NET POSITION</b>	
Net investment in capital assets	4,721,527
Restricted for:	
Emergency reserves	12,000
Debt service	148,439
Unrestricted	(8,575,728)
Total net position	\$ (3,693,762)

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

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 264,304	\$ -	\$ 568,330	\$ 25,000	\$ 329,026
Interest on long-term debt	1,640,786	-	-	-	(1,640,786)
	<u>\$ 1,905,090</u>	<u>\$ -</u>	<u>\$ 568,330</u>	<u>\$ 25,000</u>	<u>(1,311,760)</u>
General revenues:					
Property taxes					536
Specific ownership taxes					61
Other					631
Total general revenues					<u>1,228</u>
Special items:					
Transfer from District No. 2 - Bonds					16,024,000
Total special items					<u>16,024,000</u>
Change in net position					14,713,468
Net position - Beginning					(18,407,230)
Net position - Ending					<u>\$ (3,693,762)</u>

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

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

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and investments	\$ 5,578	\$ -	\$ 58,444	\$ 64,022
Cash and investments - Restricted	12,000	139,625	-	151,625
Due from other governments	5,915	8,814	-	14,729
Account receivable - County Treasurer	5	-	-	5
Property taxes receivable	386	-	-	386
Total assets	23,884	\$ 148,439	\$ 58,444	\$ 230,767
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 14,731	\$ -	\$ 725	\$ 15,456
Total liabilities	14,731	-	725	15,456
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred property tax revenue	386	-	-	386
Total deferred inflows of resources	386	-	-	386
<b>FUND BALANCES</b>				
Restricted for:				
Emergency reserves	12,000	-	-	12,000
Debt service	-	148,439	-	148,439
Assigned to:				
Capital projects	-	-	57,719	57,719
Unassigned	(3,233)	-	-	(3,233)
Total fund balances	8,767	148,439	57,719	214,925
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 23,884</b>	<b>\$ 148,439</b>	<b>\$ 58,444</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,581,750
Long-term liabilities are not due and payable in the current period and, therefore, are not in the funds.	
FMIC settlement, principal and interest	(93,597)
Bonds payable	(9,840,166)
Accrued interest on bonds payable	(534,106)
Developer advance payable	(21,181)
Accrued interest on Developer advance	(1,387)
Net position of governmental activities	\$ (3,693,762)

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

**LORSON RANCH METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Intergovernmental revenue - Nos. 2-7	\$ 218,307	\$ 172,353	\$ -	\$ 390,660
Property taxes	536	-	-	536
Specific ownership tax	61	-	-	61
FMIC settlement - Nos. 2-7	176,970	-	-	176,970
Covenant violation fine income	700	-	-	700
Lien release fee	631	-	-	631
FMIC settlement	-	-	25,000	25,000
Total revenues	<u>397,205</u>	<u>172,353</u>	<u>25,000</u>	<u>594,558</u>
<b>EXPENDITURES</b>				
Accounting	25,976	-	-	25,976
Audit	6,650	-	-	6,650
County Treasurer's fee	8	-	-	8
District management	20,167	-	-	20,167
Dues and subscriptions	1,220	-	-	1,220
FMIC payment	177,234	-	-	177,234
Miscellaneous	1,009	-	-	1,009
Insurance and bonds	6,682	-	-	6,682
Landscape maintenance	49,398	-	-	49,398
Legal	50,779	-	43,302	94,081
Repairs and maintenance	750	-	-	750
Streetlights and entrance electric	30,876	-	-	30,876
Water - landscaping	42,684	-	-	42,684
Bond interest - Series 2011	-	482,934	-	482,934
Bond interest - Series 2012	-	815,874	-	815,874
Bond principal - Series 2011	-	8,135,071	-	8,135,071
Bond principal - Series 2012	-	3,903,276	-	3,903,276
Capital outlay	-	-	113,438	113,438
Total expenditures	<u>413,433</u>	<u>13,337,155</u>	<u>156,740</u>	<u>13,907,328</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(16,228)</u>	<u>(13,164,802)</u>	<u>(131,740)</u>	<u>(13,312,770)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advance	11,174	-	10,007	21,181
Transfers from District No. 2 - Bonds	248,157	13,337,155	2,438,688	16,024,000
Repay developer advance	(248,157)	-	(2,438,688)	(2,686,845)
Transfer to/from other funds	-	(136,851)	136,851	-
Total other financing sources (uses)	<u>11,174</u>	<u>13,200,304</u>	<u>146,858</u>	<u>13,358,336</u>
<b>NET CHANGE IN FUND BALANCES</b>	(5,054)	35,502	15,118	45,566
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>13,821</u>	<u>112,937</u>	<u>42,601</u>	<u>169,359</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 8,767</u>	<u>\$ 148,439</u>	<u>\$ 57,719</u>	<u>\$ 214,925</u>

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

**LORSON RANCH METROPOLITAN DISTRICT NO. 1  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES 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	\$	45,566
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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 depreciable asset over the estimated useful life of the asset. Capital outlay, the conveyance of capital assets to other governments and depreciation expense in the current period are as follows:

Capital outlay		156,740
Depreciation		(28,105)

Long-term debt (e.g., bonds, notes, 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.

Current year bond principal payment		12,038,347
Accrued interest on bonds - Change in liability		(236,315)
FMIC settlement - Change in liability		165,283
Developer advance payment		2,686,845
Developer advances - current year		(21,181)

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 advance		<u>(93,712)</u>
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Change in net position of governmental activities		<u><u>\$ 14,713,468</u></u>
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**LORSON RANCH METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year Ended December 31, 2016**

	<b>Budget Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Intergovernmental revenue - Nos. 2-7	\$ 214,632	\$ 220,000	\$ 218,307	\$ (1,693)
Property taxes	536	536	536	-
Specific ownership tax	54	61	61	-
FMIC settlement - Nos. 2-7	176,914	176,970	176,970	-
Covenant violation fine income	-	1,000	700	(300)
Lien release fee	-	631	631	-
Total revenues	<u>392,136</u>	<u>399,198</u>	<u>397,205</u>	<u>(1,993)</u>
<b>EXPENDITURES</b>				
Accounting	25,000	26,000	25,976	24
Audit	7,000	6,650	6,650	-
County Treasurer's fee	4	8	8	-
District management	20,000	22,000	20,167	1,833
Dues and subscriptions	2,000	2,000	1,220	780
FMIC payment	177,178	177,334	177,234	100
Miscellaneous	-	1,000	1,009	(9)
Insurance and bonds	7,000	7,000	6,682	318
Landscape maintenance	50,000	50,000	49,398	602
Legal	28,000	51,000	50,779	221
Repairs and maintenance	5,000	1,000	750	250
Streetlights and entrance electric	28,000	30,000	30,876	(876)
Water - landscaping	20,000	45,000	42,684	2,316
Total expenditures	<u>369,182</u>	<u>418,992</u>	<u>413,433</u>	<u>5,559</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>22,954</u>	<u>(19,794)</u>	<u>(16,228)</u>	<u>3,566</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advance	-	12,000	11,174	(826)
Transfers from District No. 2 - Bonds	-	248,157	248,157	-
Repay Developer advance	-	(248,157)	(248,157)	-
Total other financing sources (uses)	<u>-</u>	<u>12,000</u>	<u>11,174</u>	<u>(826)</u>
<b>NET CHANGE IN FUND BALANCES</b>	22,954	(7,794)	(5,054)	2,740
<b>FUND BALANCES - BEGINNING OF YEAR</b>	23,051	13,821	13,821	-
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 46,005</u>	<u>\$ 6,027</u>	<u>\$ 8,767</u>	<u>\$ 2,740</u>

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

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

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Lorson Ranch Metropolitan District No. 1 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was formed on December 2, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in El Paso County, Colorado. The District was established to provide financing for the acquisition, construction and installation of streets, traffic and safety controls, parks and recreational facilities, water, storm drainage, sanitation, fire protection, and mosquito control. Under the Consolidated Service Plan, the District is the Service District related to Lorson Ranch Metropolitan District Nos. 2 – 7 (Districts) as the Financing Districts to serve a new community to be known as Lorson Ranch.

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

The District is not financially accountable for any other organization (including District Nos. 2 – 7), nor is the District a component unit of any other primary governmental entity.

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

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

**Government-wide and Fund Financial Statements**

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. 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.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are

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

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

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 the 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.

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, intergovernmental revenue 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 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

**Budgets**

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

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.

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not include in the calculation of the net investment in capital assets component of the District's net position.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Parks and recreation	
Monumentation and landscaping	40 years

**Deferred Inflows 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, *deferred property tax revenue*, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are 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.

**LORSON RANCH METROPOLITAN DISTRICT NO. 1**  
**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.

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

**NOTE 3 - CASH AND INVESTMENTS**

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

Statement of net position:	
Cash and investments	\$ 64,022
Cash and investments - Restricted	<u>151,625</u>
Total cash and investments	<u><u>\$ 215,647</u></u>

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

Deposits with financial institutions	<u><u>\$ 215,647</u></u>
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**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's cash deposits had a bank balance of \$217,355 and a carrying balance of \$215,647.

**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.

**LORSON RANCH METROPOLITAN DISTRICT NO. 1**  
**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.

As of December 31, 2016, the District had no investments.

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

**NOTE 4 - CAPITAL ASSETS**

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

	<b>Balance at December 31, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at December 31, 2016</b>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land improvements				
Drainage - JCC Channel	\$ 5,473,931	\$ 44,027	\$ -	\$ 5,517,958
Total capital assets, not being depreciated	5,473,931	44,027	-	5,517,958
Capital assets, being depreciated:				
Parks and recreation	354,052	112,713	-	466,765
Entrance and landscaping	751,389	-	-	751,389
Total capital assets, being depreciated	1,105,441	112,713	-	1,218,154
Less accumulated depreciation for:				
Parks and recreation	(28,826)	(9,321)	-	(38,147)
Entrance and landscaping	(97,431)	(18,784)	-	(116,215)
Total accumulated depreciation	(126,257)	(28,105)	-	(154,362)
Total capital assets, being depreciated, net	979,184	84,608	-	1,063,792
Governmental activities capital assets, net	<u>\$ 6,453,115</u>	<u>\$ 128,635</u>	<u>\$ -</u>	<u>\$ 6,581,750</u>

The costs of all capital assets transferred to other governmental entities were removed from the District's financial records. There is a two year warranty period on the capital assets conveyed. The District anticipates that the costs associated with the warranty, if any, will be insignificant, and these costs are normally paid by the subcontractors that constructed the agreement.

Depreciation expense for the year ended December 31, 2016, was charged to general government activities.

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

**NOTE 5 - LONG-TERM OBLIGATIONS**

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

	Balance at December 31, 2015	Additions	Payments	Balance at December 31, 2016	Due Within One Year
Bonds					
Series 2011	\$ 8,135,071	\$ -	\$ 8,135,071	\$ -	\$ -
Accrued interest on Series 2011 bonds	110,727	372,207	482,934	-	-
Series 2012	13,743,442	-	3,903,276	9,840,166	-
Accrued interest on Series 2012 bonds	187,064	1,162,916	815,874	534,106	-
FMIC settlement	258,880	11,951	177,234	93,597	93,597
Developer advance - Operations:					
Developer advance	194,109	11,174	194,109	11,174	-
Accrued interest on Developer advance	46,943	7,584	54,048	479	-
Developer advance - Capital:					
Developer advance	2,328,251	10,007	2,328,251	10,007	-
Accrued interest on Developer advance	25,217	86,128	110,437	908	-
	<u>\$ 25,029,704</u>	<u>\$ 1,661,967</u>	<u>\$ 16,201,234</u>	<u>\$ 10,490,437</u>	<u>\$ 93,597</u>

**\$18,191,145 Limited Tax General Obligation Bonds, Series 2011, dated July 27, 2011**, with an annual interest rate of 10%, maturing July 1, 2041, for the purpose of financing and refinancing the public infrastructure. The bonds are payable January 2 and July 1, commencing on January 2, 2012. The bonds are subject to redemption prior to maturity, at the option of the District, on any date upon payment of par and accrued interest, with no redemption premium. The principal and interest on the bonds are payable solely from and to the extent of Pledged Revenues, which may or may not be sufficient to pay the principal and interest on the bonds. The bonds have no set principal payment schedule. The proceeds were used to fully redeem the 2006A and 2007 Bond Anticipation Notes. The bonds were paid off from the proceeds of the Series 2016 bonds issued by District No. 2.

**\$13,929,164 Limited Tax General Obligation Bonds, Series 2012, dated June 1, 2012**, with an annual interest rate of 10%, maturing July 1, 2041, for the purpose of financing and refinancing the public infrastructure. The bonds are payable January 2 and July 1, commencing on January 2, 2013. The bonds are subject to redemption prior to maturity, at the option of the District, on any date upon payment of par and accrued interest, with no redemption premium. The principal and interest on the bonds are payable solely from and to the extent of Pledged Revenues, which may or may not be sufficient to pay the principal and interest on the bonds. The bonds have no set principal payment schedule. The proceeds were used to repay developer advances for operations and maintenance costs and capital costs.

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

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

**FMIC Settlement**

On February 15, 2011, the District Court of El Paso County, Colorado, awarded judgment to Fountain Mutual Irrigation Company (FMIC) in the amount of \$200,672 for damages and \$279,328 for legal, engineering and other costs for a total of \$480,000. The judgment bears interest from November 24, 2010, at the rate of 8% per annum compounded annually. By resolution, the District has resolved to repay the judgment by annually levying a tax, not to exceed 10 mills, until the judgment is discharged. The tax levy commenced with the fiscal year 2012. In 2016, a payment of \$177,234 was made on the judgment. As of December 31, 2016, the outstanding balance totaled \$93,597.

**Developer Advances**

The District has entered into Funding and Reimbursement Agreements with the Developer as follows:

**Funding and Reimbursement Agreement for Operations and Maintenance Costs**

On February 10, 2005, the District entered into an agreement with the Lorson North Development Corporation (Developer). The Developer has agreed to advance up to \$290,000 through December 31, 2005, to fund the costs of operations and maintenance. The agreement is subject to renewal on an annual basis as deemed appropriate by the Developer. Such advances include an interest rate of 8.0% and are to be reimbursed by the District with the proceeds of any future bond issues or any other available revenues of the District. Any reimbursement is subject to annual appropriation by the District and is contingent upon the District's ability to generate sufficient revenues, after payment of annual operating expenditures and debt service requirements. On February 13, 2014, the agreement was extended through December 31, 2018. During 2016, the Developer advanced \$11,174 for operations and maintenance. As of December 31, 2016, outstanding principal was \$11,174 and accrued interest due to the Developer was \$479.

**Funding and Reimbursement Agreement for Capital Costs**

On February 10, 2005, the District entered into an agreement with the Lorson North Development Corporation (Developer). The Developer has agreed to advance up to \$9,300,000 through December 31, 2005, to fund the costs of capital projects. The agreement is subject to renewal on an annual basis as deemed appropriate by the Developer. Such advances include an interest rate of 8.0% and are to be reimbursed by the District with the proceeds of any future bond issues or any other available revenues of the District. Any reimbursement is subject to annual appropriation by the District and is contingent upon the District's ability to generate sufficient revenues, after payment of annual operating expenditures and debt service requirements. On February 13, 2014, the agreement was extended through December 31, 2018. As of December 31, 2016, outstanding principal was \$10,007 and accrued interest due to the Developer was \$908.

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

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

**Authorized Debt**

According to the District's Consolidated Service Plan, the District is authorized to issue General Obligation Debt in an amount not to exceed \$300,000,000.

On November 2, 2004, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$2,400,000,000 at an interest rate not to exceed 18% per annum. \$22,589,855 was utilized to issue the bond anticipation notes and \$32,120,309 was utilized to issue Series 2011 and 2012 Bonds. At December 31, 2016, the District had remaining authorized but unissued indebtedness from this election of \$2,345,289,836 for street improvements, traffic controls, parks and recreation, water supply, sanitation, mosquito control, operations and maintenance and debt refunding as follows:

	<b>Amount Authorized on November 2, 2004</b>	<b>Series 2006A BANS</b>	<b>Series 2007 BANS</b>	<b>Series 2011 Bonds</b>	<b>Series 2012 Bonds</b>	<b>Authorized But Unissued</b>
Street improvements	\$ 300,000,000	\$2,369,569	\$ 4,581,663	\$ -	\$ 6,856,728	\$ 286,192,040
Traffic controls	300,000,000	-	-	-	-	300,000,000
Parks and recreation	300,000,000	-	90,429	-	602,566	299,307,005
Water supply	300,000,000	2,271,986	1,719,499	-	3,457,201	292,551,314
Sanitation	300,000,000	4,285,518	6,843,427	-	2,432,308	286,438,747
Mosquito control	300,000,000	-	-	-	-	300,000,000
Operations/maintenance	300,000,000	-	427,764	-	580,361	298,991,875
Debt refunding	300,000,000	-	-	18,191,145	-	281,808,855
	<u>\$ 2,400,000,000</u>	<u>\$ 8,927,073</u>	<u>\$ 13,662,782</u>	<u>\$ 18,191,145</u>	<u>\$ 13,929,164</u>	<u>\$ 2,345,289,836</u>

**NOTE 6 - NET POSITION**

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balance of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of assets. As of December 31, 2016, the District had net investment in capital assets calculated as follows:

Net investment in capital assets:

Capital assets, net	\$ 6,581,750
Noncurrent portion of outstanding long-term obligations	(1,860,223)
Net investment in capital assets	<u>\$ 4,721,527</u>

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

**NOTE 6 - NET POSITION (CONTINUED)**

Restricted assets include net position that is restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. As of December 31, 2016, the District had restricted net position as follows:

Restricted net position:

Emergencies	\$ 12,000
Debt service	148,439
Total restricted net position	<u>\$ 160,439</u>

The District has a deficit in unrestricted net position. The deficit amount is a result of the District being responsible for the repayment of notes and other obligations issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

**NOTE 7 - RELATED PARTIES**

The members of the Board of Directors of the District are employees, owners of, or otherwise associated with Lorson North Development Corporation (Developer), the Landhuis Company, Saint Aubyn Homes, LLC and Lorson Investment, LLC, holders of the District's outstanding bonds, and may have conflicts of interest in dealing with the District. See Note 5 concerning advances made by the Developer and Note 2 concerning the receipt of district fees.

The Developer has entered into various construction contracts on behalf of the District. Payments on the contracts are made when progress billings are received.

**NOTE 8 - INTERGOVERNMENTAL AGREEMENT**

**District Facilities Construction and Service Agreement**

On January 27, 2005, the District entered into a District Facilities Construction and Service Agreement (Master IGA) with Lorson Ranch Metropolitan District Nos. 2 – 7 (Financing Districts). Under the terms of the agreement, the Financing Districts will, over a period of years, levy sufficient taxes to pay to the District the costs of construction, acquisition, and equipping of certain public facilities and services and the related operations and maintenance costs.

In return, the District has agreed to acquire, construct, and equip the facilities, provide for their operations and maintenance, and provide service to the property within the District or convey facilities to other entities that will provide the service.

**NOTE 9 - ECONOMIC DEPENDENCY**

The District has not yet established a revenue base sufficient to pay the District's operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding by the Developer.

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

**NOTE 10 - RISK MANAGEMENT**

The District is 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, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

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

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

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 2, 2004, a majority of the District's electors authorized the District to collect, retain, and spend any revenue from sources other than ad valorem taxes annually without regard to any limitations imposed by TABOR. Additionally, the District is authorized to increase ad valorem taxes annually, up to \$1,000,000 or a lesser amount, as may be needed to pay the District's operations, maintenance, and other expenses, without limitation contained within Article X, Section 20 of the Colorado Constitution.

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

**SUPPLEMENTARY INFORMATION**

**LORSON RANCH METROPOLITAN DISTRICT NO. 1**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**Year Ended December 31, 2016**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Intergovernmental revenue - Nos. 2-3	\$ 272,483	\$ 172,353	\$ (100,130)
Total revenues	<u>272,483</u>	<u>172,353</u>	<u>(100,130)</u>
<b>EXPENDITURES</b>			
Bond interest - Series 2011	137,313	482,934	(345,621)
Bond interest - Series 2012	957,364	815,874	141,490
Bond principal - Series 2011	8,238,763	8,135,071	103,692
Bond principal - Series 2012	6,800,999	3,903,276	2,897,723
Total expenditures	<u>16,134,439</u>	<u>13,337,155</u>	<u>2,797,284</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(15,861,956)</u>	<u>(13,164,802)</u>	<u>2,697,154</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from District No. 2 - Bonds	15,039,762	13,337,155	(1,702,607)
Transfer from other funds	900,000	-	(900,000)
Transfer to other funds	-	(136,851)	(136,851)
Total other financing sources (uses)	<u>15,939,762</u>	<u>13,200,304</u>	<u>(2,739,458)</u>
<b>NET CHANGE IN FUND BALANCES</b>	77,806	35,502	(42,304)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>112,937</u>	<u>112,937</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 77,806</u>	<u>\$ 148,439</u>	<u>\$ 70,633</u>

**LORSON RANCH METROPOLITAN DISTRICT NO. 1**  
**CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**Year Ended December 31, 2016**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
District fees	\$ 1,125,000	\$ -	\$ (1,125,000)
Drainage fees	145,000	-	(145,000)
Bridge fees	5,000	-	(5,000)
FMIC settlement	25,000	25,000	-
Total revenues	<u>1,300,000</u>	<u>25,000</u>	<u>(1,275,000)</u>
<b>EXPENDITURES</b>			
Legal	50,000	43,302	6,698
Capital outlay			
Drainage	944,000	725	943,275
Parks and landscaping	150,000	112,713	37,287
Sanitary sewer	1,180,000	-	1,180,000
Streets	1,416,000	-	1,416,000
Water	1,180,000	-	1,180,000
Total expenditures	<u>4,920,000</u>	<u>156,740</u>	<u>4,763,260</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(3,620,000)</u>	<u>(131,740)</u>	<u>3,488,260</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Developer advance	4,870,000	10,007	(4,859,993)
Transfers from District No. 2 - Bonds	-	2,438,688	2,438,688
Repay Developer advance	(227,187)	(2,438,688)	(2,211,501)
Transfers to other funds	(900,000)	-	900,000
Transfers from other funds	-	136,851	136,851
Total other financing sources (uses)	<u>3,742,813</u>	<u>146,858</u>	<u>(3,595,955)</u>
<b>NET CHANGE IN FUND BALANCES</b>	122,813	15,118	(107,695)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>547,734</u>	<u>42,601</u>	<u>(505,133)</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 670,547</u>	<u>\$ 57,719</u>	<u>\$ (612,828)</u>