

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2016

with

Independent Auditors' Report



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Board of Directors
North Pine Vistas Metropolitan District No.1
Douglas County, Colorado

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of North Pine Vistas Metropolitan District No.1 (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 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 that 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 North Pine Vistas 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 for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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

Stratagem PC
Certified Public Accountants

Lakewood, Colorado

September 25, 2017

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 154,273	\$ -	\$ -	\$ 154,273	\$ -	\$ 154,273
Cash and investments - restricted	-	39,581	-	39,581	-	39,581
Prepaid expenses	4,977	-	-	4,977	-	4,977
Accounts Receivable - Developer	45,229	-	1,434,858	1,480,087	(1,460,616)	19,471
Capital assets not being depreciated	-	-	-	-	12,496,939	12,496,939
Total Assets	<u>\$ 204,479</u>	<u>\$ 39,581</u>	<u>\$ 1,434,858</u>	<u>\$ 1,678,918</u>	<u>11,036,323</u>	<u>12,715,241</u>
LIABILITIES						
Accounts payable	\$ 1,572	\$ -	\$ 1,434,858	\$ 1,436,430	-	1,436,430
Payable to District 2	127,109	-	-	127,109	-	127,109
Payable to District 3	75,798	-	-	75,798	-	75,798
Long-term liabilities:						
Due in more than one year	-	-	-	-	2,668,765	2,668,765
Total Liabilities	<u>204,479</u>	<u>-</u>	<u>1,434,858</u>	<u>1,639,337</u>	<u>2,668,765</u>	<u>4,308,102</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Nonspendable:						
Prepays	4,977	-	-	4,977	(4,977)	-
Restricted:						
Emergencies	300	-	-	300	(300)	-
Debt service	-	39,581	-	39,581	(39,581)	-
Unassigned	<u>(5,277)</u>	<u>-</u>	<u>-</u>	<u>(5,277)</u>	<u>5,277</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>39,581</u>	<u>-</u>	<u>39,581</u>	<u>(39,581)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 204,479</u>	<u>\$ 39,581</u>	<u>\$ 1,434,858</u>	<u>\$ 1,678,918</u>		
Net Position:						
Net investment in capital assets					9,828,174	9,828,174
Restricted for:						
Emergencies					300	300
Debt service					39,581	39,581
Unrestricted					<u>(1,460,916)</u>	<u>(1,460,916)</u>
Total Net Position					<u>\$ 8,407,139</u>	<u>\$ 8,407,139</u>

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

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 2,611	\$ -	\$ 10,446	\$ 13,057	\$ (10,446)	\$ 2,611
Insurance	1,636	-	-	1,636	-	1,636
Legal	21,795	-	134,183	155,978	(134,183)	21,795
Miscellaneous expenses	385	-	-	385	-	385
Directors Fees	2,200	-	-	2,200	-	2,200
Condemnation	-	-	87,867	87,867	(87,867)	-
Capital improvements	-	-	12,093,503	12,093,503	(12,093,503)	-
Repay developer advances - principal	-	-	8,471,473	8,471,473	(8,471,473)	-
Repay developer advances - interest	-	-	157,508	157,508	35,174	192,682
Total Expenditures	28,627	-	20,954,980	20,983,607	(20,762,298)	221,309
GENERAL REVENUES						
Developer advance	5,648	-	12,325,999	12,331,647	(12,331,647)	-
Transfer from District 2	14,849	-	3,230,219	3,245,068	-	3,245,068
Transfer from District 3	5,774	-	5,398,762	5,404,536	-	5,404,536
Total General Revenues	26,271	-	20,954,980	20,981,251	(12,331,647)	8,649,604
NET CHANGES IN FUND BALANCES	(2,356)	-	-	(2,356)	2,356	
CHANGE IN NET POSITION					8,428,295	8,428,295
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	2,356	39,581	-	41,937	(63,093)	(21,156)
END OF YEAR	-	\$ 39,581	\$ -	\$ 39,581	\$ 8,367,558	\$ 8,407,139

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

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2016

	Original & Final		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Developer advance	\$ 29,248	\$ 5,648	\$ (23,600)
Transfer from District 2	14,069	14,849	780
Transfer from District 3	6,683	5,774	(909)
Total Revenues	50,000	26,271	(23,729)
EXPENDITURES			
Accounting and audit	3,500	2,611	889
Insurance	-	1,636	(1,636)
Legal	15,000	21,795	(6,795)
Transfer to Capital Fund	1,800	-	1,800
Miscellaneous expenses	-	385	(385)
Directors fees	-	2,200	(2,200)
Contingency	29,091	-	29,091
Emergency reserve	609	-	609
Total Expenditures	50,000	28,627	21,373
NET CHANGE IN FUND BALANCE	-	(2,356)	(2,356)
FUND BALANCE:			
BEGINNING OF YEAR	129	2,356	2,227
END OF YEAR	\$ 129	\$ -	\$ (129)

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

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of the North Pine Vistas Metropolitan District No. 1 (“the District”), located in Douglas County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized as a quasi-municipal organization established under the State of Colorado Special District Act and the creation of the District was approved by the eligible electors of the District voting at an election held on November 1, 2011. The District was established for the primary purpose of funding, constructing, owning and operating certain public infrastructure and assisting in the coordination of metropolitan district services and facilities to support the needs of a primarily residential development known as “Lagae Ranch” located in the City of Castle Pines (the “City”) and Douglas County (the “County”). The District was organized concurrently with North Pine Vistas Metropolitan District No. 2 (“District No. 2”) and North Pine Vistas Metropolitan District No. 3 (“District No. 3”). The Service Plan states that District No. 1 is responsible for constructing, owning and operating the majority of the public services and facilities for the Development, while District No. 2 and District No. 3 are responsible for funding and assisting in the coordination of metropolitan district services and facilities related to the Development.

The District’s main source of revenue is the annual revenue received from District Nos. 2 and 3 as reimbursement for actual service costs and construction costs. These revenues are based on funding through property tax and fee revenue under the Intergovernmental Agreement Concerning District Operations and Outstanding Reimbursement (see Note 5).

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

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

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

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

Basis of Presentation

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

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

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

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

The District reports the following major governmental funds:

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

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

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

Budgetary Accounting

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

During 2016, the District amended its total appropriations in the Capital Fund from \$20,000,000 to \$24,000,000 primarily due to anticipated repayment of developer advances

Assets, Liabilities, Deferred Inflows/Inflows of Resources and Net Position

Fair Value of Financial Instruments

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

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

Deposits and Investments

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

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

Estimates

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category.

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 columns 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 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

The costs of normal maintenance and repairs that do not add to the value of the assets 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 using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2016.

Long-Term Obligations

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

Fund Equity

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

Nonspendable Fund Balance

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

The nonspendable fund balance in the General Fund in the amount of \$4,977 represents prepaid expenditures.

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$300 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$39,581 is restricted for the payment of the debt service costs.

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Net Position

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

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

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

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

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

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2016

Note 2: Cash

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

Statement of Net Position:

Cash	\$154,273
Cash - Restricted	<u>39,581</u>
Total	<u>\$193,854</u>

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

Deposits with financial institutions	<u>\$193,854</u>
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Deposits

Custodial Credit Risk

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

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

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

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2016

Note 3: Capital Assets

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

<u>Governmental Type Activities:</u>	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 170,940	\$ 12,325,999	\$ -	\$ 12,496,939
Total capital assets not being depreciated	170,940	12,325,999	-	12,496,939
Government type assets, net	\$ 170,940	\$ 12,325,999	\$ -	\$ 12,496,939

Upon completion, acceptance and the applicable warranty period, a majority of the completed fixed assets will be conveyed by the District to, the City, the County, the owners association or other appropriate entities for ongoing ownership, operations and maintenance. The District will not be responsible for maintenance.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2016, is as follows:

Facilities Funding and Acquisition Agreement

On May 31, 2013, the District entered into a Facilities Funding and Acquisition Agreement with R.I. Management of Tulsa, Inc. (“RIM”) whereby RIM agreed to either construct certain public improvements which would then be acquired by the District or initially fund the construction and installation of such improvements by the District. Per this agreement the District agreed to reimburse RIM for the advances plus interest at 8%. This agreement extends through December 31, 2025.

Operation Funding Agreement

On May 31, 2013, the District entered into an Operation Funding Agreement with RIM pursuant to which RIM agrees to pay to the District amounts sufficient to cover the shortfall in revenues available for operations and maintenance expenses for the District through December 31, 2025. Amounts advanced will be repaid with interest at 8%.

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2016

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
Developer advance- Capital	\$ 145,950	\$10,924,746	\$ 8,471,473	\$ 2,599,223	\$ -
Developer advance- Operations	21,917	-	-	21,917	-
Accrued interest - Capital	8,714	189,678	157,508	40,884	-
Accrued interest - Operations	3,737	3,004	-	6,741	-
Total	<u>\$ 180,318</u>	<u>\$11,117,428</u>	<u>\$ 8,628,981</u>	<u>\$ 2,668,765</u>	<u>\$ -</u>

Note 5: Other Agreements

Intergovernmental Agreement Concerning District Operations and Outstanding Reimbursement

On June 2, 2016, the District and Districts Nos. 2 and 3 entered into an Intergovernmental Agreement Concerning District Operations and Outstanding Reimbursement. In this agreement, District No. 2 and District No. 3 engage District No. 1 to perform administrative functions and to be the operator of any of the public improvements which are owned by any of the Districts and have not been conveyed to other entities. Districts Nos. 2 and 3 are required to provide funds to District No. 1 sufficient to pay for these functions.

Intergovernmental Agreement

On November 1, 2012 (amended in 2014 and 2016), the District, Districts Nos. 2 and 3, and the City entered into an Intergovernmental Agreement that states that the public improvements to be financed by the Districts shall be dedicated to the City, or other governmental entity and prohibits the Districts from owning or operating water and sanitation improvements unless Castle Pines North Metropolitan District no longer provides such services. The agreement also requires City approval to any inclusions of property or consolidations, limits the amount of debt issued by all Districts to \$35,000,000, requires City approval prior to condemnations, imposes a mill levy limitation consistent with the Service Plan and imposes a maximum mill levy imposition term consistent with the Service Plan.

Development and Reimbursement Agreement

On August 15, 2014, Lennar Colorado, LLC (“Lennar”) and RIM entered into a Development and Reimbursement Agreement. On April 14, 2016, RIM assigned its interest in this agreement to the District. Pursuant to this agreement, RIM agreed to cause certain public improvements to be constructed on certain lots owned by Lennar. Pursuant to the Assignment, the District assumed RIM’s responsibility for the construction of the improvements, including RIM’s obligation to construct improvements pursuant to a Subdivision Improvement Agreement dated November 28, 2008 between RIM and the City, and pursuant to an Inclusion Agreement dated December 19, 2007 between RIM and Castle Pines North Metropolitan District.

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

Intergovernmental Agreement Concerning Annual Contribution for Right-of-Way and Storm Sewer Maintenance

On October 11, 2016, the District, Districts Nos. 2 and 3, and the City entered into an Intergovernmental Agreement Concerning Annual Contribution for Right-of-Way and Storm Sewer Maintenance. The City required the Districts to enter into this agreement in order to ensure that the Districts assist the City with defraying the operation and maintenance costs associated with certain landscaping and certain storm sewer and drainage improvements. The agreement required the District to make annual contributions derived from a mill levy of 5 mills imposed on taxable property within the District, commencing on January 1 of the year following the year in which the City accepts the related Lagae Road for ownership and maintenance. The contribution obligation terminates on the earlier of 15 years from the commencement date or December 31, 2035, whichever first occurs. The 5 Mill Levy was first certified in 2016 for collection in 2017 on both District Nos. 2 and 3.

Note 6: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 7: Tax, Spending and Debt Limitations

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

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

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

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

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2016

On November 1, 2011, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 8: Risk Management

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

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

Note 9: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

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

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2016

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

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

SUPPLEMENTAL INFORMATION

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2016

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
REVENUES			
Miscellaneous income	\$ -	\$ -	\$ -
Total Revenues	-	-	-
EXPENDITURES			
Miscellaneous expenses	-	-	-
Total Expenditures	-	-	-
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE:			
BEGINNING OF YEAR	<u>39,581</u>	<u>39,581</u>	-
END OF YEAR	<u>\$ 39,581</u>	<u>\$ 39,581</u>	<u>\$ -</u>

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

NORTH PINE VISTAS METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Developer advance	\$ 20,000,000	\$ 14,500,000	\$ 12,325,999	\$ (2,174,001)
Transfer from District 2	-	8,187,291	3,230,219	(4,957,072)
Transfer from District 3	-	6,000,000	5,398,762	(601,238)
	<u>20,000,000</u>	<u>28,687,291</u>	<u>20,954,980</u>	<u>(7,732,311)</u>
EXPENDITURES				
Capital improvements	19,926,000	14,350,000	12,093,503	2,256,497
Accounting	14,000	14,000	10,446	3,554
Legal	60,000	110,000	134,183	(24,183)
Engineering	-	22,250	-	22,250
Condemnation	-	3,750	87,867	(84,117)
Repay developer advances - principal	-	9,500,000	8,471,473	1,028,527
Repay developer advances - interest	-	-	157,508	(157,508)
	<u>20,000,000</u>	<u>24,000,000</u>	<u>20,954,980</u>	<u>3,045,020</u>
NET CHANGE IN FUND BALANCE	-	4,687,291	-	(4,687,291)
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 4,687,291</u>	<u>\$ -</u>	<u>\$ (4,687,291)</u>

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