

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**Weld County, Colorado**

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



**RECEIVED**

*By the Office of the State Auditor at 10:35 am, Jul 31, 2017*

## TABLE OF CONTENTS

	<b>PAGE</b>
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	<b>1</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Position .....	1
Statement of Activities.....	2
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds .....	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Net Activities .....	5
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.....	6
Notes to Financial Statements .....	7
<b>SUPPLEMENTAL INFORMATION</b> .....	<b>25</b>
Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.....	26
Capital Projects Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.....	27
<b>CONTINUING DISCLOSURE (UNAUDITED)</b> .....	<b>28</b>
History of the Pioneer Metropolitan District Nos. 2, 3, 4 and 5 Assessed Valuation.....	29
Assessed Valuation of Classes of Property in the Pioneer Metropolitan District Nos. 2, 3, 4 and 5 .....	30
Historical Assessed and Actual Valuation of Oil and Gas Properties in Weld County.....	31
Total Taxes Levied and Collected in the Pioneer Metropolitan District Nos. 2, 3, 4 and 5 .....	31
2016 Taxpayers and Assessed Valuation within the Pioneer Metropolitan District Nos. 2, 3, 4 and 5 .....	32

Board of Directors  
Pioneer Metropolitan District No. 3  
Weld County, Colorado

### Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Pioneer Metropolitan District No. 3, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Pioneer Metropolitan District No. 3 as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other-Matters***

*Required Supplementary Information*

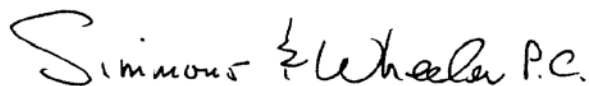
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pioneer Metropolitan District No. 3's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The continuing disclosure, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Simmons & Wheeler P.C.".

Englewood, CO  
June 22, 2017

## **BASIC FINANCIAL STATEMENTS**

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**STATEMENT OF NET POSITION**  
**December 31, 2016**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and investments	\$ 180
Cash and investments - Restricted	1,329,794
Taxes receivable - County Treasurer	64
Receivable from Pioneer Regional	10,005
Receivable from Resource	6,849
Due from District No. 2	315
Due from District No. 4	866
Due from District No. 5	3,259
Capital assets	<u>2,836,541</u>
Total assets	<u><u>4,187,873</u></u>
<b>LIABILITIES</b>	
Accounts payable	15,288
Deposits payable	7,500
Accrued interest payable	34,743
Noncurrent liabilities	
Due in more than one year	<u>6,422,332</u>
Total liabilities	<u><u>6,479,863</u></u>
<b>NET POSITION</b>	
Net investment in capital assets	310,082
Restricted for:	
Emergency reserves	7,100
Debt service	185,976
Unrestricted	<u>(2,795,148)</u>
Total net position	<u><u>\$ (2,291,990)</u></u>

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

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2016**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenues and Changes in Net Position</u>
					<u>Governmental Activities</u>
Government activities:					
General government	\$ 360,525	\$ -	\$ 228,635	\$ -	\$ (131,890)
Interest and related costs on long-term debt	820,804		762,093		(58,711)
	<u>\$ 1,181,329</u>	<u>\$ -</u>	<u>\$ 990,728</u>	<u>\$ -</u>	<u>(190,601)</u>
General revenues:					
Property tax					13,680
Specific ownership tax					915
Net investment income					2,864
Other income					85
Total general revenues					<u>17,544</u>
Change in net position					(173,057)
Net position - Beginning					(2,118,933)
Net position - Ending					<u>\$ (2,291,990)</u>

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

**PIONEER METROPOLITAN DISTRICT NO. 3  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2016**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 180	\$ -	\$ -	\$ 180
Cash and investments - Restricted	-	217,255	1,112,539	1,329,794
Taxes receivable - County Treasurer	15	49	-	64
Receivable from Pioneer Regional	10,005	-	-	10,005
Receivable from Resource	6,849	-	-	6,849
Due from District No. 2	73	242	-	315
Due from District No. 4	200	666	-	866
Due from District No. 5	752	2,507	-	3,259
Total assets	\$ 18,074	\$ 220,719	\$ 1,112,539	\$ 1,351,332
<b>LIABILITIES</b>				
Accounts payable	\$ 15,288	\$ -	\$ -	\$ 15,288
Deposits payable	-	-	7,500	7,500
Total liabilities	15,288	-	7,500	22,788
<b>FUND BALANCES</b>				
Restricted for:				
Emergency reserves	7,100	-	-	7,100
Debt service	-	220,719	-	220,719
Assigned for:				
Capital projects		-	1,105,039	1,105,039
Unassigned	(4,314)	-	-	(4,314)
Total fund balances	2,786	220,719	1,105,039	1,328,544
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 18,074</b>	<b>\$ 220,719</b>	<b>\$ 1,112,539</b>	

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

Capital assets are recorded as assets on the statement of net position, but are recorded as expenditures in the funds.

Capital assets	2,836,541
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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	(6,414,000)
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Accrued interest on bonds payable	(34,743)
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Developer advance payable	(8,332)
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Net position of governmental activities	\$ (2,291,990)
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**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>				
Property taxes	\$ 3,157	\$ 10,523	\$ -	\$ 13,680
Specific ownership tax	210	705	-	915
Net investment income	347	975	1,542	2,864
Other income	18	67	-	85
Transfer from Pioneer Metro No. 2	16,209	54,028	-	70,237
Transfer from Pioneer Metro No. 4	44,687	148,953	-	193,640
Transfer from Pioneer Metro No. 5	167,739	559,112	-	726,851
Total revenues	<u>232,367</u>	<u>774,363</u>	<u>1,542</u>	<u>1,008,272</u>
<b>EXPENDITURES</b>				
Accounting	38,123	-	-	38,123
Audit	4,000	-	-	4,000
County Treasurer's fee	47	158	-	205
Elections	1,391	-	-	1,391
Engineering	1,221	-	76,573	77,794
Insurance and dues	6,134	-	-	6,134
Interest expense	-	-	2,986	2,986
Keenesburg Agreement	-	-	63,099	63,099
Legal services	29,658	-	43,415	73,073
Miscellaneous	19	-	-	19
Pioneer Regional - Accounting	1,324	-	-	1,324
Pioneer Regional - Insurance	1,243	-	-	1,243
Pioneer Regional - Legal	515	-	-	515
Resource - Accounting	1,077	-	-	1,077
Resource - Insurance	976	-	-	976
Resource - Legal	897	-	-	897
Water Conservation Program	-	-	87,669	87,669
Debt Service				
Bond principal	-	3,743,000	-	3,743,000
Cost of issuance	-	400,264	-	400,264
Interest expense	-	412,608	-	412,608
Paying agent/trustee fees	-	7,500	-	7,500
Capital outlay				
Acquisition of water rights	-	-	1,847,328	1,847,328
Total expenditures	<u>86,625</u>	<u>4,563,530</u>	<u>2,121,070</u>	<u>6,771,225</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>145,742</u>	<u>(3,789,167)</u>	<u>(2,119,528)</u>	<u>(5,762,953)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	-	6,414,000	-	6,414,000
Transfers to other funds	(102,032)	(3,220,955)	-	(3,322,987)
Transfers from other funds	21,759	-	3,301,228	3,322,987
Total other financing sources (uses)	<u>(80,273)</u>	<u>3,193,045</u>	<u>3,301,228</u>	<u>6,414,000</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	65,469	(596,122)	1,181,700	651,047
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>(62,683)</u>	<u>816,841</u>	<u>(76,661)</u>	<u>677,497</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 2,786</u>	<u>\$ 220,719</u>	<u>\$ 1,105,039</u>	<u>\$ 1,328,544</u>

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

**PIONEER METROPOLITAN DISTRICT NO. 3  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ACTIVITIES  
Year Ended December 31, 2016**

Net changes in fund balances - Total governmental funds \$ 651,047

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

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 1,847,328

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 proceeds (6,414,000)  
Bond principal payment 3,743,000

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 bonds - change in liability (432)

Change in net position of governmental activities \$ (173,057)

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

**PIONEER METROPOLITAN DISTRICT NO. 3  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
December 31, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 3,157	\$ 3,157	\$ 3,157	\$ -
Specific ownership tax	280	211	210	(1)
Net investment income	50	500	347	(153)
Other income	-	-	18	18
Transfer from Pioneer Metro No. 2	16,656	16,656	16,209	(447)
Transfer from Pioneer Metro No. 4	45,786	45,786	44,687	(1,099)
Transfer from Pioneer Metro No. 5	172,435	172,435	167,739	(4,696)
Total revenues	<u>238,364</u>	<u>238,745</u>	<u>232,367</u>	<u>(6,378)</u>
<b>EXPENDITURES</b>				
Accounting	28,000	36,000	38,123	(2,123)
Audit	5,000	4,000	4,000	-
Contingency	94	16,653	-	16,653
County Treasurer's fees	47	47	47	-
Election	2,000	1,400	1,391	9
Engineering	-	5,000	1,221	3,779
Insurance and dues	8,800	6,200	6,134	66
Legal services	13,000	15,000	29,658	(14,658)
Miscellaneous	-	-	19	(19)
Pioneer Regional - Accounting	1,000	700	1,324	(624)
Pioneer Regional - Insurance	1,000	1,300	1,243	57
Pioneer Regional - Legal	600	1,000	515	485
Resource - Accounting	1,000	700	1,077	(377)
Resource - Insurance	1,000	1,000	976	24
Resource - Legal	600	1,000	897	103
Total expenditures	<u>62,141</u>	<u>90,000</u>	<u>86,625</u>	<u>3,375</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>176,223</u>	<u>148,745</u>	<u>145,742</u>	<u>(3,003)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to other fund	(74,000)	(150,000)	(102,032)	47,968
Transfer from other fund	-	100,000	21,759	(78,241)
Total other financing sources (uses)	<u>(74,000)</u>	<u>(50,000)</u>	<u>(80,273)</u>	<u>(30,273)</u>
<b>NET CHANGE IN FUND BALANCES</b>	102,223	98,745	65,469	(33,276)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>(94,069)</u>	<u>(62,683)</u>	<u>(62,683)</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 8,154</u>	<u>\$ 36,062</u>	<u>\$ 2,786</u>	<u>\$ (33,276)</u>

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

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Pioneer Metropolitan District No. 3 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by court order and recorded with the Weld County Clerk and Recorder on August 29, 2006, 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 Weld County, Colorado. The District was organized to provide financing for the design, acquisition, construction and installation and maintenance of essential public-purpose facilities, such as water, sanitation, storm drainage, streets, safety protection, park and recreation, transportation, television relay and translation, mosquito control, and limited fire protection.

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.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**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 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.

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.

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 District property taxes, specific ownership taxes, and interest. 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.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**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 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 inflows 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 are reported in the applicable governmental activities column in the government-wide financial statements. 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. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**Water Rights**

The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

**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.

**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.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**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	\$ 180
Cash and investments - Restricted	<u>1,329,794</u>
Total cash and investments	<u><u>\$ 1,329,974</u></u>

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

Deposits with financial institutions	\$ 15,867
Investments	<u>1,314,107</u>
Total cash and investments	<u><u>\$ 1,329,974</u></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's cash deposits had a bank balance of \$25,485 and a carrying balance of \$15,867.

**Investments**

The District's policy is to follow state statutes regarding investments.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

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.

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 the following investments:

<b>Investment</b>	<b>Maturity</b>	<b>Balance</b>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	<u>\$ 1,314,107</u>

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**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) (the Trust), 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 the Trust. The Trust 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.

**NOTE 4 - CAPITAL ASSETS**

The following is an analysis of the changes in capital assets for the year ended December 31, 2016:

	<b>Balance at December 31, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at December 31, 2016</b>
	<u>2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>2016</u>
Capital assets, not being depreciated:				
Water rights	\$ 989,213	\$ 1,847,328	\$ -	\$ 2,836,541
Governmental activities capital assets	<u>\$ 989,213</u>	<u>\$ 1,847,328</u>	<u>\$ -</u>	<u>\$ 2,836,541</u>

The balance shown above consists of certain water rights in the Larimer Fox Hill Aquifer and the Arapahoe Acquifer. It also includes expenses related to Lost Creek Well and project management related acquisition of water rights.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 5 - LONG-TERM OBLIGATIONS**

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

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
General Obligation Bonds:					
Series 2016	\$ -	\$ 6,414,000	\$ -	\$ 6,414,000	\$ -
Series 2012	3,743,000	-	3,743,000	-	-
Developer advance	8,332	-	-	8,332	-
	<u>\$ 3,751,332</u>	<u>\$ 6,414,000</u>	<u>\$ 3,743,000</u>	<u>\$ 6,422,332</u>	<u>\$ -</u>

The details of the District's long-term obligations are as follows:

**\$6,414,000 Limited Tax General Obligation Refunding and Improvement Bonds, Series 2016 (the Series 2016 Bonds)**, were issued on September 30, 2016. The proceeds from the sale of the Series 2016 Bonds were used to finance the costs of certain water related public improvements, currently refund the District's outstanding Limited Tax General Obligation Bonds, Taxable Series 2012, and pay the costs of issuance of the Series 2016 Bonds.

The Series 2016 Bonds bear interest at 6.50% payable semi-annually on June 1 and December 1, beginning on December 1, 2016. The Series 2016 Bonds are structured as cash flow bonds, meaning that there are no scheduled payments of principal prior to the final maturity date. The Series 2016 Bonds mature on December 1, 2046. The flow of funds directs the Trustee to credit the interest account with the amounts necessary to fund current interest for the Bond Year and additional pledged revenues are deposited to the Redemption Account. On October 15th of each year the Trustee will determine how many bonds can be redeemed (in integral multiples of \$1,000) on December 1 and any additional funds on hand will be transferred to the Interest Account to go towards the funding of the following year's interest payments. Any accrued unpaid interest on the Series 2016 Bonds will compound semi-annually on June 1 and December 1. The Series 2016 Bonds are secured by and payable solely from and to the extent of Pledged Revenue consisting of monies derived by the District, net of any costs of collection, from: (i) the District's Required Mill Levy; (ii) all Capital Pledge Agreement Revenues; and (iii) Specific Ownership Tax which is collected as a result of the imposition of the District's Required Mill Levy.

The Indenture provides a Required Mill Levy be imposed upon all taxable property in the District in the amount of 50 mills, subject to adjustment for changes in the method of calculating assessed valuation after January 1, 2006. The Capital Pledge Agreements require Pioneer Metropolitan District Nos. 2, 4, and 5 to also impose 50 mills, subject to adjustment for changes in the method of calculating assessed valuation after January 1, 2006, upon all taxable property in the respective Districts.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

The Series 2016 Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, on December 1, 2021, and on any date thereafter, upon payment of par and accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows.

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2021, to November 30, 2022	3.00%
December 1, 2022, to November 30, 2023	2.00%
December 1, 2023, to November 30, 2024	1.00%
December 1, 2024, and thereafter	0.00%

**\$4,150,000 Limited Tax General Obligation Bonds, Taxable Series 2012, dated April 1, 2012 (the Series 2012 Bonds)**, were issued for the purposes of: 1) financing the costs of designing, acquiring, constructing, and installing certain public infrastructure and assets, 2) reimbursing a portion of capital costs, organizational expenses and operating expenditures, 3) providing capitalized interest for the payment of a portion of the interest on the Series 2012 Bonds, and 4) paying the costs of issuance of the Series 2012 Bonds.

The Series 2012 Bonds are term bonds payable annually on December 1 with final maturity on December 1, 2037, bearing interest of 11.00% payable semiannually on June 1 and December 1. The Series 2012 Bonds are subject to redemption prior to maturity, at the option of the District on December 1, 2015, and on any date thereafter, upon payment of par and accrued interest, without redemption premium. The Series 2012 Bonds are also subject to mandatory excess funds redemption on December 1 of each year, upon payment of par and accrued interest, without redemption premium, to the extent of any funds in the Redemption Account of the Bond Fund. Notwithstanding the foregoing, no redemption of the Series 2012 Bonds shall occur unless and until the Surplus Fund has an amount equal to the Required Surplus (defined below) amount.

The Series 2012 Bonds are secured by and payable solely from Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: 1) the Required Mill Levy, 2) amounts payable to the District by other Districts under the Capital Pledge Agreements, 3) the Pledged Capital Fees (if any), and 4) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy. Required Mill Levy means an ad valorem tax levied against all taxable property of the District each year in the amount of 50 mills (Required Mill Levy).

The Series 2012 Bonds are also secured by amounts accumulated in the Surplus Fund. The Surplus Fund was not funded upon the issuance of the Series 2012 Bonds, but rather will accumulate up to the amount of the Required Surplus of \$830,000 to the extent of the receipt of Pledged Revenue in excess of the amount required to pay debt service on the Series 2012 Bonds. The Series 2012 Bonds were refunded with the proceeds of the Series 2016 Bonds.

The District's long-term obligations are payable solely from Pledged Revenue and the amounts thereof cannot be determined, therefore a schedule of future debt payments has not been provided.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**Capital Pledge Agreements**

Each of Pioneer Metropolitan District Nos. 2, 4, and 5 entered into Capital Pledge Agreements with the District (collectively, the Capital Pledge Agreements). Under such Capital Pledge Agreements, each of District Nos. 2, 4, and 5 covenant to levy an ad valorem mill levy each year upon all taxable property of each of such Districts in the amount of 50 mills. The Districts will transfer all ad valorem tax revenue derived from such levy and all Specific Ownership Tax revenue allocable to such levy to the District for payment on the Series 2016 Bonds.

**Developer Advance**

The Developer advanced \$8,332 to the District in 2014 to pay for operating costs of the District. There is not currently an agreement in place documenting the District's obligation to repay the advance. However, the advance is an obligation of the District that may only be repaid if, and when, funds are available. Such repayment is subject to budget and appropriation.

**Authorized Debt**

On May 2, 2006, a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness in an amount not to exceed \$3,680,000,000. On May 4, 2010, and on May 6, 2014, a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness in an amount not to exceed \$3,680,000,000 and \$4,010,000,000, respectively. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<b>Debt Authorized</b>	<b>Authorization Used for Series 2012 Bonds</b>	<b>Authorization Used for Series 2016 Bonds</b>	<b>Authorized But Unissued</b>
Streets	\$ 990,000,000	\$ -	\$ -	\$ 990,000,000
Water	990,000,000	3,695,000	2,671,000	983,634,000
Sanitary sewer	990,000,000	145,000	-	989,855,000
Parks and recreation	990,000,000	-	-	990,000,000
Traffic and safety	990,000,000	-	-	990,000,000
Mosquito control	990,000,000	-	-	990,000,000
Public transportation	990,000,000	-	-	990,000,000
Fire protection	990,000,000	-	-	990,000,000
Television relay and translation	990,000,000	-	-	990,000,000
Security Service	330,000,000			330,000,000
Operations and maintenance	150,000,000	310,000	-	149,690,000
Debt refunding	990,000,000	-	3,743,000	986,257,000
Intergovernmental contracts	990,000,000	-	-	990,000,000
	<u>\$11,370,000,000</u>	<u>\$ 4,150,000</u>	<u>\$ 6,414,000</u>	<u>\$11,359,436,000</u>

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

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. However, as of the date of this audit, the amount and timing of any debt issuance is not determinable.

**NOTE 6 - NET POSITION**

The District's net position consists 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 balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

As of December 31, 2016, the District had net investment in capital assets calculated as follows:

	Governmental Activities
Net investment in capital assets:	
Capital assets, net	\$ 2,836,541
Noncurrent portion of outstanding long-term obligations	(3,056,650)
Unspent bond proceeds	530,191
Net investment in capital assets	\$ 310,082

Restricted net position includes 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 restricted net position as of December 31, 2016, as follows:

	Governmental Activities
Restricted net assets:	
Emergency reserves	\$ 7,100
Debt service	185,976
Total restricted net assets	\$ 193,076

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

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 7 - RELATED PARTY**

The members of the Board of Directors are employees, owners or are otherwise associated with HP Farms Holding, LLC (the Property Owner) and Gateway American Resources, LLC (the Developer). The Property Owner and the Developer may have conflicts of interest in dealing with the District. During 2016, the District paid \$60,799 for engineering expenses and \$2,986 in accrued interest on such costs to various entities related to the Property Owner and Developer.

**NOTE 8 - AGREEMENTS**

**Memorandum of Understanding, dated November 12, 2008 (as amended March 26, 2012)**

As contemplated by the Service Plan, Pioneer Regional Metropolitan District ("Pioneer Regional") was designated as the "Service District" and Pioneer Metropolitan District Nos. 1 through 6, inclusive, were designated as the "Financing Districts." The Service Plans for the Service District and each of the Financing Districts provided that the Service District and the Financing Districts would enter into a Facilities Funding Construction and Operations Agreement (the "FFCO") in order to establish the rights and obligations of the Service District and Financing Districts to provide for the financing, construction, operation, and maintenance of certain public infrastructure required for the planned future development within the Districts (the "Future Development"). Prior to completing discussions on the terms of the FFCO, the Service District and the Financing Districts entered into a Memorandum of Understanding (the "MOU") dated November 12, 2008 (as amended March 26, 2012), by and among Pioneer Metropolitan District Nos. 1 through 6 and Pioneer Regional, whereby the Service District was granted the authority to enter into the Keenesburg Agreement (defined below), and, in addition to the Keenesburg obligation, the Financing Districts agreed to reimburse the Service District for certain expenses incurred by the Service District for the benefit of each of the Financing Districts.

Such expenses are those incurred by the Service District in connection with the organization and administration of the Districts, District No. 1 and District No. 6, and in the planning and designing of improvements to serve the Future Development (the "Reimbursable Costs"), as defined therein. The MOU was amended on March 26, 2012, to release the Districts from their obligations under the MOU and to allow the Districts to enter in to the 2012 FFCO (defined below) as contemplated by the Service Plans for the Districts. The amendment to the MOU, however, contemplates that the FFCO will be amended in the future to ensure transition and/or use of any public improvements constructed thereunder to Pioneer Regional as the Service District.

**Facilities Funding Construction and Operations Agreement**

As anticipated by the amendment to the MOU as noted above, on March 26, 2012, the District entered into a Facilities Funding, Construction and Operations Agreement with Pioneer Metropolitan District Nos. 2, 4, and 5, (the "2012 FFCO"). Pursuant to the 2012 FFCO, the District is generally responsible for coordinating the financing, construction, ownership, operation and maintenance of public improvements, while District Nos. 2, 4, and 5, serving as the "Financing Districts," are generally responsible for producing property tax and other revenue sufficient to pay the costs of operations and debt service expenses incurred for the purpose of providing such improvements and services.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 8 - AGREEMENTS (CONTINUED)**

In addition, the District, in its capacity as the “Coordinating District” under the FFCO has agreed to pay the Reimbursable Costs and will assume Pioneer Regional’s obligations under the Keenesburg Agreement allowing the Future Development to continue to have the Keenesburg water transmission source available.

The 2012 FFCO allows for a future amendment to include Pioneer Regional, District No. 1 and District No. 6 to ensure transition and/or use of any public improvements constructed thereunder to Pioneer Regional, as the provider of services to end users within the Districts, and the eventual transition to each of the Districts to provide services to its future residents and/or commercial users.

**Keenesburg Agreement (Pipeline)**

In furtherance of its responsibilities under the MOU and of bringing water to the Future Development, Pioneer Regional entered into that certain Agreement dated April 17, 2008, with the Town of Keenesburg (the “Town”) (as amended, the “Keenesburg Agreement”) which allows Pioneer Regional the use of capacity in a water pipeline built by the Town (the “Keenesburg Pipeline”) for use by the Future Development provided that yearly payments are made by Pioneer Regional to the Town for reimbursement of a portion of the Town’s costs in constructing the Keenesburg Pipeline. Pioneer Regional and the District determined that it was in the best interests of the future residents of the Districts for the District to assume the obligations and obtain the rights of Pioneer Regional under the Keenesburg Agreement.

The Town, Pioneer Regional, and the District, entered into that certain First Amendment to and Assignment of Agreement, dated May 1, 2012 (the “Amended Keenesburg Agreement”, collectively with the Keenesburg Agreement the, “Keenesburg Agreement”), wherein Pioneer Regional assigned all of its rights and obligations in the Keenesburg Agreement to the District and wherein the parties revised the use of the Keenesburg Pipeline.

Annual payments of \$50,479 were due to Keenesburg beginning May 25, 2008, through May 25, 2010. Pursuant to the First Amendment to and Assignment of Agreement, annual payments of \$63,099 are due to Keenesburg on May 25 in years 2013 through 2032.

Subsequent to December 31, 2016, the District sold its right to capacity in the water line to the Town of Castle Rock (see Note 12).

**Pioneer Community Reimbursement IGA**

In accordance with the MOU, Pioneer Regional incurred certain costs on behalf of the Financing Districts. Pursuant to the Intergovernmental Agreement Regarding Assignment of Reimbursement Obligations; Consent to Construction; and Collection of Regional Mill Levy dated as of March 26, 2012, between Pioneer Regional and the District (the “Pioneer Community Reimbursement IGA”), Pioneer Regional assigned to the District certain obligations it had with respect to the Reimbursement Obligations and Organization Costs and Services (each, as defined therein) which are collectively referred to therein as the “Pioneer Community Reimbursement Obligations.” Pioneer Regional has agreed to adjust the formula in determining its rates to be charged to end users in the Future Development in exchange for the District assuming the Pioneer Community Reimbursement Obligations.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 8 - AGREEMENTS (CONTINUED)**

Pioneer Regional is obligated to provide water and wastewater service to the future residents and commercial development of the Districts. As noted above, in exchange for the District's assumption of the Pioneer Community Reimbursement Obligations, Pioneer Regional agreed that it will adjust the calculation considered in establishing its rate structure so that no charges are passed along that would have otherwise been assessed as a result of Pioneer Regional's former obligations pursuant to the MOU. This is expected to result in a decrease in the tap fee rates ultimately payable for connection to water and wastewater systems for service.

Under the Pioneer Community Reimbursement IGA, Pioneer Regional agreed that it will not object to the District's construction of (or causing the construction of) future water and wastewater infrastructure that would otherwise be the responsibility of Pioneer Regional pursuant to its Service Plan. The District agreed to give Pioneer Regional advance written notice prior to constructing any water and wastewater improvements. In addition, pursuant to the First Amendment to the MOU and the Pioneer Community Reimbursement IGA, Pioneer Regional and the District will enter into an agreement prior to the connection of any resident to water or wastewater service to ensure Pioneer Regional has adequate access to such infrastructure to provide the services contemplated under its Service Plan and to establish an orderly transition of the use and ownership of the improvements to each of the Districts.

Finally, each of the Financing Districts will be obligated to impose a regional improvements mill levy (the "Regional Mill Levy"), the proceeds of which are to be remitted to Pioneer Regional to be used for the provision of regional water and wastewater improvements. Pursuant to the Pioneer Regional Community Reimbursement IGA, the District will cause each of the other Financing Districts to impose the Regional Mill Levy and will collect and remit the revenue derived from such levy to Pioneer Regional. Pioneer Regional is to use such revenue for payment of its on-going operations expenses and certain reimbursement obligations which were retained by Pioneer Regional and not assigned to or assumed by the District and for any other purpose authorized by its Service Plan. The District did not make any payments related to this agreement during 2016.

The Pioneer Community Reimbursement IGA was amended by that certain First Amendment to Intergovernmental Agreement Regarding Assignment of Reimbursement Obligations; Consent to Construction; and Collection of Regional Mill levy dated May 28, 2013 (the "First Amendment to Pioneer IGA"). Pursuant to the First Amendment to Pioneer IGA, the District agreed to make funds available to Pioneer Regional for Pioneer Regional's implementation of the Program (defined below) adopted by the Board of Directors of Pioneer Regional. Pursuant to the First Amendment to Pioneer IGA, such funds may be used for payment of any incentive payments, water infrastructure or water as may be necessary for Pioneer Regional's implementation of the Program. During 2016, the District made an incentive payment under the Program to Greenleaf Acres, LLC in the amount of \$128,809.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 8 - AGREEMENTS (CONTINUED)**

**Agricultural Water Conservation Pilot Program**

Pioneer Regional is intended to provide retail water and wastewater services within the Pioneer communities, including the service area of the District. A Planned Unit Development (PUD) was approved for the Pioneer Communities in 2013 which zoning document approved certain agricultural uses within the Pioneer Communities. Since Pioneer Regional will be providing water services, it determined that implementation of a water conservation program by the agricultural users within the Pioneer Communities will benefit all of the residents and inhabitants in the Pioneer Communities. In May 2013 the Board of Directors of Pioneer Regional adopted the Pioneer Regional Agricultural Water Conservation Pilot Program. The Program was created to promote and incentivize on-farm physical improvements, soils amendment, crop selection, irrigation management practices and water measurement that promote water conservation and increase crop density and yield ("Conservation Measures"). Pioneer Regional's goal is to ensure water is being used efficiently and that it is being put to beneficial use. Under the Program, financial incentives are made available to farmers and ranchers ("Growers") for a 12 year period beginning in 2013. In order to participate in the Program, a Grower must meet certain eligibility requirements, including, but not limited to actively farming or ranching within the Program Area a total of not less than 500 acres for commercial purposes only. In addition, the Conservation Measures to be implemented must be located within the taxing boundaries of one of the District Nos. 2 through 5. As noted above, the First Amendment to the Pioneer Community Reimbursement IGA was entered into between Pioneer Regional and the District to evidence the District's agreement to making funding available for the Program. At this time, one participation agreement under the Program has been executed, as described below.

**Pioneer Regional Metropolitan District Participation Agreement Agricultural Water Conservation Pilot Program – Greenleaf Acres, LLC**

On July 8, 2013, Pioneer Regional entered into its first participation agreement under the Program with Greenleaf Acres, LLC ("Greenleaf") (the "Greenleaf Participation Agreement"). Pursuant to the Greenleaf Participation Agreement, Greenleaf has elected to participate in the Program with respect to 920 acres of its property. The term of the Greenleaf Participation Agreement is for 12 years. Greenleaf must make an annual election of the Conservation Measures it intends to implement in any particular growing season (the "Plan"). If Greenleaf fulfills its Plan in accordance with the Program requirements, then Greenleaf will be entitled to certain incentive payments.

Pursuant to the First Amendment to Pioneer IGA, the District is required to make an incentive payment to Greenleaf consisting of a combination of water delivery and/or cash, as set forth in the Greenleaf Participation Agreement. In the event the total assessed valuation of real property located within Pioneer Metropolitan District Nos. 2 – 5 decreases in any year from the total assessed valuation for collection year 2013, the Greenleaf Participation Agreement provides that the District has the right to decrease the amount of the incentive payment by an amount that is proportionate to the decrease in total assessed valuation. The scheduled cash payment for 2015 was \$100,000. The total assessed valuation decreased by 60.61% from 2013 collection year to 2015 collection year. Accordingly, the cash payment due for 2015 was \$39,390. The District was also required to deliver 200 acre feet of water to Greenleaf in 2015. The District did not deliver water to Greenleaf and the cash value of such water was determined

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 8 - AGREEMENTS (CONTINUED)**

to be \$43,760, reduced by the decrease in assessed valuation from 2013 to 2015. No cash payment was made and no water was delivered to Greenleaf during 2015. The District recorded an amount payable to Greenleaf of \$41,140 as of December 31, 2015.

The scheduled cash payment for 2016 was \$100,000. The total assessed valuation decreased by 39.02% from 2013 collection year to 2016 collection year. Accordingly the cash payment due for 2016 was \$60,983. The District did not deliver 200 acre fee of water to Greenleaf in 2016 and the cash value of such water, as reduced by the decrease in assessed valuation from 2013 to 2016, was \$26,686. During 2016, the District paid Greenleaf \$41,140 and \$87,669 for its obligation for 2015 and 2016, respectively.

**Resource Colorado Water and Sanitation Metropolitan District Reimbursement IGA**

The District, Resource Colorado Water and Sanitation Metropolitan District (“Resource”), Resource Colorado Water and Sanitation District acting by and through Resource Colorado Water and Sanitation District GAR Water Activity Enterprise No. 1 (“Enterprise No. 1”), and Resource Colorado Water and Sanitation District acting by and through Resource Colorado Water and Sanitation District Water Activity Enterprise (the “Original Enterprise”), entered into that certain Intergovernmental Agreement Regarding Assignment of Reimbursement Obligations and Consent to Construction on April 19, 2012 (“Resource IGA”).

Pursuant to the Resource IGA, Resource, the Original Enterprise, and Enterprise No. 1 agree to assign, and the District agrees to assume, their respective responsibilities for repayment of those reimbursement obligations pursuant to those certain Gateway American Resources Operation Funding Agreements, the Quebec Corp. Operation Funding Agreements, the Gateway American Resources Project Funding Agreement and the Quebec Corp. Project Funding Agreement (as defined therein) (the “Reimbursement Obligations”). In exchange, Resource, the Original Enterprise, and Enterprise No. 1 agree not to include the costs incurred in any rate structure for service established by Resource, the Original Enterprise or Enterprise No. 1 for future services provided to the Districts’ service area (the “Pioneer Community”).

In addition, pursuant to the Resource IGA, Resource on behalf of itself and the Pioneer Community Enterprise consents to and agrees that it will not object to the District’s construction, or causing such construction to be done, in the future, of water infrastructure that may be construed as a Resource and/or Pioneer Community Enterprise obligation under Resource’s Service Plan provided the District gives Resource advance written notice together with a copy of the construction plans prior to commencement of such construction. Further, the Parties agree that if the District undertakes any water or sewer infrastructure construction, it will enter into an agreement with Pioneer Regional as contemplated in the First Amendment to MOU between Pioneer Regional and Pioneer prior to the connection of a resident for water or sewer service to a Pioneer Regional Improvement to ensure both Pioneer Regional (as the contracting entity with Resource) and Resource have adequate access to such infrastructure to provide its services under its respective Service Plan and such that Resource can satisfy the terms and provisions of the Will Serve Letter (defined therein).

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 8 - AGREEMENTS (CONTINUED)**

**Memorandum of Understanding, dated November 2, 2015**

The District entered into a Memorandum of Understanding (the "MOU") as of November 2, 2015, by and between Pioneer Regional and Resource. Pioneer Regional and Resource declared Inactive Status effective January 1, 2016. Pioneer Regional and Resource anticipate a shortfall in funding necessary to fund Pioneer Regional and Resources' General Fund expenditures during the period of Inactive Status (the "Inactive Period Shortfall"). The District will cause the Pioneer Districts to impose the Regional Mill Levy for budget years 2016 through 2020, the proceeds of which will be retained by the District. Pursuant to the MOU, the District agrees to directly pay for any operation and maintenance expenses of Pioneer Regional and Resource which may be required to maintain their corporate existence and compliance with applicable laws, rules and regulations of the State of Colorado and Weld County.

**NOTE 9 - INTERFUND AND OPERATING TRANSFERS**

The transfer from the General Fund to the Capital Projects Fund was due to the funding of certain capital costs by the General Fund with property taxes received from the Financing Districts.

The transfer from the Debt Service Fund to the Capital Projects Fund represents Series 2016 Bond proceeds deposited to the Project Fund trust account to be used to pay capital costs.

Transfers from the Debt Service Fund to the General and Capital Projects Funds were a result of a portion of the Series 2012 Bond Surplus Fund released to pay certain operating and capital expenses.

**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, and 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.

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 11 - 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.

On May 2, 2006, the electorate approved the removal of limitations imposed by the TABOR Amendment and any other law that purports to limit the District's revenue or expenditures, a \$10,000,000 annual property tax increase for operations, a \$330,000,000 annual property tax increase for intergovernmental agreements, and a \$330,000,000 annual property tax increase for regional improvements.

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.

**NOTE 12 – SUBSEQUENT EVENT**

Pursuant to the Keenesburg Agreement (see Note 8) the District had the sole, exclusive and perpetual right to 800 gallons per minute of capacity in the Keenesburg Well Water Transmission Line (the Water Line). On March 31, 2017, the District assigned 100% of its rights in the Water Line to the Town of Castle Rock by and through the Town of Castle Rock Water Enterprise (Castle Rock). As consideration for the assignment, Castle Rock paid \$2,232,500 to the District and assumed the requirement to pay \$63,098.58 annually to Keenesburg until the final payment on May 25, 2032.

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

## **SUPPLEMENTAL INFORMATION**

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**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 Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 10,524	\$ 10,523	\$ 10,523	\$ -
Specific ownership tax	950	713	705	(8)
Net investment income	100	500	975	475
Other income	-	-	67	67
Transfer from Pioneer Metro No. 2	55,518	55,518	54,028	(1,490)
Transfer from Pioneer Metro No. 4	152,623	152,623	148,953	(3,670)
Transfer from Pioneer Metro No. 5	574,784	574,784	559,112	(15,672)
Total revenues	<u>794,499</u>	<u>794,661</u>	<u>774,363</u>	<u>(20,298)</u>
<b>EXPENDITURES</b>				
Bond principal	365,000	3,743,000	3,743,000	-
County Treasurer's fees	158	158	158	-
Cost of issuance	-	350,000	400,264	(50,264)
Interest expense - Bonds	411,730	352,265	412,608	(60,343)
Paying agent fees	2,000	2,000	7,500	(5,500)
Contingency	2,112	2,577	-	2,577
Total expenditures	<u>781,000</u>	<u>4,450,000</u>	<u>4,563,530</u>	<u>(113,530)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	13,499	(3,655,339)	(3,789,167)	(133,828)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	-	6,414,000	6,414,000	-
Transfer to other fund	-	(3,550,000)	(3,220,955)	329,045
Total other financing sources (uses)	<u>-</u>	<u>2,864,000</u>	<u>3,193,045</u>	<u>329,045</u>
<b>NET CHANGE IN FUND BALANCES</b>	13,499	(791,339)	(596,122)	195,217
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>818,431</u>	<u>816,841</u>	<u>816,841</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 831,930</u>	<u>\$ 25,502</u>	<u>\$ 220,719</u>	<u>\$ 195,217</u>

**PIONEER METROPOLITAN DISTRICT NO. 3  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Net investment income	\$ -	\$ 1,500	\$ 1,542	\$ 42
Total revenues	<u>-</u>	<u>1,500</u>	<u>1,542</u>	<u>42</u>
<b>EXPENDITURES</b>				
Acquisition of water rights	-	1,850,000	1,847,328	2,672
Contingency	-	17,232	-	17,232
Engineering	-	17,000	76,573	(59,573)
Interest expense	-	-	2,986	(2,986)
Keenesburg Agreement	63,099	63,099	63,099	-
Legal services	-	50,000	43,415	6,585
Repay developer advance	-	65,000	-	65,000
Water Conservation Program	10,901	87,669	87,669	-
Total expenditures	<u>74,000</u>	<u>2,150,000</u>	<u>2,121,070</u>	<u>28,930</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(74,000)</u>	<u>(2,148,500)</u>	<u>(2,119,528)</u>	<u>28,972</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other fund	74,000	3,600,000	3,301,228	(298,772)
Total other financing sources (uses)	<u>74,000</u>	<u>3,600,000</u>	<u>3,301,228</u>	<u>(298,772)</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	1,451,500	1,181,700	(269,800)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>(76,661)</u>	<u>(76,661)</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 1,374,839</u>	<u>\$ 1,105,039</u>	<u>\$ (269,800)</u>

**CONTINUING DISCLOSURE  
(UNAUDITED)**

**PIONEER METROPOLITAN DISTRICT NO. 3  
HISTORY OF THE PIONEER METROPOLITAN  
DISTRICT NOS. 2, 3, 4 AND 5 ASSESSED VALUATION  
December 31, 2016  
(Unaudited)**

<u>Levy/ Collection Year</u>	<u>All Districts</u>	<u>Percent Change</u>
2007/2008	\$ 6,046,880	-
2008/2009	5,815,530	-3.83%
2009/2010	7,455,400	28.20%
2010/2011	1,809,098	-75.73%
2011/2012	888,940	-50.86%
2012/2013	23,375,230	2529.56%
2013/2014	16,227,776	-30.58%
2014/2015	9,207,560	-43.26%
2015/2016	14,254,810	54.82%
2016/2017	30,324,070	112.73%

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**ASSESSED VALUATION OF CLASSES OF PROPERTY IN THE**  
**PIONEER METROPOLITAN DISTRICT NOS. 2, 3, 4 AND 5**  
**December 31, 2016**  
**(Unaudited)**

Property Class	2012 Assessed Valuation	Percentage of 2012 Assessed Valuation	2013 Assessed Valuation	Percentage of 2013 Assessed Valuation	2014 Assessed Valuation	Percentage of 2014 Assessed Valuation
Vacant	\$ -	-	\$ -	-	\$ -	-
Residential	44,910	0.19%	19,070	0.12%	19,070	0.21%
Commercial	-	-	-	-	-	-
Agricultural	123,740	0.52%	147,500	0.91%	147,500	1.60%
Oil and Gas	23,012,610	97.28%	15,722,406	96.89%	8,224,440	89.32%
State Assessed Personal Property	475,240	2.01%	338,800	2.09%	816,550	8.87%
Total	<u>\$ 23,656,500</u>	<u>100.00%</u>	<u>\$ 16,227,776</u>	<u>100.00%</u>	<u>\$ 9,207,560</u>	<u>100.00%</u>

Property Class	2015 Assessed Valuation	Percentage of 2015 Assessed Valuation	2016 Assessed Valuation	Percentage of 2016 Assessed Valuation
Vacant	\$ -	-	\$ -	-
Residential	31,740	0.22%	31,740	0.10%
Commercial	-	-	-	-
Agricultural	183,260	1.29%	187,740	0.62%
Oil and Gas	12,310,350	86.36%	28,175,010	92.91%
State Assessed Personal Property	1,729,460	12.13%	1,929,580	6.36%
Total	<u>\$ 14,254,810</u>	<u>100.00%</u>	<u>\$ 30,324,070</u>	<u>100.00%</u>

**PIONEER METROPOLITAN DISTRICT NO. 3  
HISTORICAL ASSESSED AND ACTUAL VALUATION OF  
OIL AND GAS PROPERTIES IN WELD COUNTY  
December 31, 2016  
(Unaudited)**

<u>Levy/ Collection Year</u>	<u>Actual Valuation</u>	<u>Percent Change</u>	<u>Assessed Valuation</u>	<u>Percent Change</u>
2007/2008	\$ 2,219,722,237	-	\$ 1,749,119,710	-
2008/2009	2,160,997,296	-2.65%	1,709,997,160	-2.24%
2009/2010	3,541,190,356	63.87%	2,868,304,890	67.74%
2010/2011	2,135,827,100	-39.69%	1,673,838,130	-41.64%
2011/2012	3,114,664,791	45.83%	2,439,298,540	45.73%
2012/2013	4,393,771,015	41.07%	3,282,053,530	34.55%
2013/2014	5,135,073,446	16.87%	3,900,510,227	18.84%
2014/2015	7,530,472,671	46.65%	5,738,450,900	47.12%
2015/2016	10,068,678,775	33.71%	7,669,479,580	33.65%
2016/2017	7,114,656,477	-29.34%	4,959,441,120	-35.34%

**PIONEER METROPOLITAN DISTRICT NO. 3  
TOTAL TAXES LEVIED AND COLLECTED IN THE  
PIONEER METROPOLITAN DISTRICT NOS. 2, 3, 4 AND 5  
December 31, 2016  
(Unaudited)**

<u>Levy/ Collection Year</u>	<u>Total Taxes Levied</u>	<u>Total Taxes Collected</u>	<u>Percent of Levy Collected</u>	<u>Total Mill Levy for Each District</u>
2012/2013	\$ 1,519,390	\$ 1,517,919	99.90%	65.00
2013/2014	1,054,815	1,054,805	100.00%	65.00
2014/2015	598,493	564,393	94.30%	65.00
2015/2016	960,475	960,475	100.00%	65.00

**PIONEER METROPOLITAN DISTRICT NO. 3**  
**2016 TAXPAYERS AND ASSESSED VALUATION WITHIN THE**  
**PIONEER METROPOLITAN DISTRICT NOS. 2, 3, 4 AND 5**  
**December 31, 2016**  
**(Unaudited)**

<b>Taxpayer</b>	<b>Taxable Value District No. 2</b>	<b>Taxable Value District No. 3</b>	<b>Taxable Value District No. 4</b>	<b>Taxable Value District No. 5</b>	<b>Total District</b>	<b>Percent of Districts' Total Assessed Valuation</b>
Kerr McGee Oil & Gas Onshore LP	\$ -	\$ -	\$ -	\$26,787,520	\$26,787,520	88.3%
Kerr McGee Gathering LLC	136,830	-	131,360	880,030	1,148,220	3.8%
Noble Energy Inc	141,030	-	516,220	-	657,250	2.2%
DCP Midstream	194,360	-	270,080	106,120	570,560	1.9%
Public Service Co of Colo (Xcel)	135,860	-	185,640	96,060	417,560	1.4%
Colorado Interstate Gas Co	-	-	-	363,800	363,800	1.2%
Greenleaf Acres LLC	-	-	-	181,320	181,320	0.6%
Flogistix	-	-	-	120,810	120,810	0.4%
Encana Oil & Gas (USA) Inc	-	-	38,870	-	38,870	0.1%
Rivera Carmelo Jr	-	-	-	16,350	16,350	0.1%
HP Farms Holdings LLC	540	10	13,060	-	13,610	0.0%
Pioneer Communities Holding LLC	3,450	-	4,750	-	8,200	0.0%
<b>Total Assessed Value in District</b>	<b>\$612,070</b>	<b>\$ 10</b>	<b>\$1,159,980</b>	<b>\$28,552,010</b>	<b>\$30,324,070</b>	<b>100.0%</b>