



Financial Statements
December 31, 2016

Purgatory Metropolitan District



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Independent Auditor's Report

To the Board of Directors
Purgatory Metropolitan District
Durango, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Purgatory Metropolitan 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 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Purgatory Metropolitan District, as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, thereof 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Purgatory Metropolitan District's basic financial statements. The supplementary information on pages 29 and 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Eide Bailly LLP

Fort Collins, Colorado
September 29, 2017

Management's Discussion and Analysis

Management's Discussion and Analysis

The management of Purgatory Metropolitan District (the District) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended December 31, 2016.

This section provides a summary of the District's financial performance. It contains an overview and analysis of the District's financial activities for the year ended December 31, 2016. The financial statements are an integral part of this analysis and are contained within this document.

FINANCIAL HIGHLIGHTS

1. The District's net position totals \$7,399,659.
2. Total revenues of \$1,255,738 exceeded total expenses of \$1,222,527 by \$33,211.
3. General revenues totaled \$843,773 in 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of three parts: management's discussion and analysis, basic financial statements including the notes to the financial statements and other supplementary information

BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Purgatory Metropolitan District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide-financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The government-wide financial statements present information for the governmental funds and the business-type activities.

The Statement of Net Position (see page 9) presents information on all of the District's assets, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities (see page 10) presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported on the accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The financial statements presented for the governmental funds are the balance sheet and the statement of revenues, expenditures and changes in fund balances.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Fund. Proprietary fund accounting uses the same basis of accounting as private-sector business enterprises. The District has one enterprise fund: the Utility Fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The proprietary fund basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

The Statement of Net Position presents information on the assets and liabilities of the District's enterprise fund, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District's enterprise fund is improving or deteriorating.

The Statement of Revenue, Expenses and Changes in Net Position reports the operating revenues and expenses and non-operating revenues and expenses of the District's enterprise fund for the year with the difference-the net income or loss-being combined with any capital contributions to determine the net change in net position for the fiscal year. That change combined with the net position at the end of the previous year total to the net position at the end of the current fiscal year.

The Statement of Cash Flows reports cash and cash equivalent activities of the enterprise fund for the fiscal year resulting from operating activities, capital and related financing activities, noncapital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current year.

The District adopts an annual appropriated budget for each of its funds. Budgetary comparison statements have been provided for the General Fund as part of the basic financial statements; the budgetary comparison statements for the Utility Fund and the Park and Recreation Funds are presented in the supplementary information in the audited financial statements to demonstrate compliance with those budgets.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 to 28 of this report.

FINANCIAL POLICY PRIORITIES

The financial goal of the District is to operate in a cost efficient manner that is similar to the practices of private enterprise. The District annually reviews its financial policies to assess their impact upon financial activities. Policies that affected financial activities are:

1. Growth pays its own way
2. Administration and operations are funded from user fees, property taxes and specific ownership taxes
3. Adequate reserves are maintained

The District Board reviews long term capital and operating plans at least annually to insure that District financial goals are being met and obligations can be met.

Day-to-Day Operational Control of the District

For operational control, the District has segmented its budget into 3 categories: the General Fund, the Capital Projects Fund and the Utility Fund. This allows the District to easily track revenues and expenditures.

The General Fund provides for the administration of the District. The major sources of revenue are monies collected for property taxes and specific ownership taxes. The General Fund collected \$816,096 and \$700,490 in property and specific ownership taxes during 2016 and 2015, respectively.

The Capital Projects Fund is used to record the infrastructure development and other capital purchases of the District. In 2016 and 2015, the Capital Projects Fund was inactive.

The District operates its Utility Fund as a self-supporting enterprise. Revenues received from user fees and other sources are sufficient to cover the day-to-day operating expenses of this fund, as well as assist in the funding of capital improvements.

Capital projects, including infrastructure and equipment purchases, are funded with operating revenues. The District, operating under a “pay-as-you-go” philosophy, is consciously building reserves sufficient to handle anticipated infrastructure expenses to be incurred over the twenty +/- years.

The District’s day-to-day operational control involves many levels of planning, forecasting, and budgeting. Revenues and expenses are allocated to specific functions of the District. The staff presents monthly financial reports to the board of directors. The reports contain revenues and expenditures compared to the adopted budget. It is an essential tool that is critical to the District’s internal control structure and continuing financial analysis.

Financial Analysis

Net Position

A summary of the statement of net position is included as Table A. The District's net position (the difference between assets, liabilities and deferred inflows of resources) is one way to measure the financial health of the District. Increases or decreases in the District's net position are indicators of improving or deteriorating financial health. This, coupled with factors such as population growth, legislative changes or policy changes, provide an integrated assessment of the District's health.

TABLE A
Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current assets	\$2,304,357	\$2,495,298	\$954,216	\$316,564	\$3,258,573	\$2,811,862
Capital assets (net of accumulated depreciation)	4,564,337	4,852,105	2,965,174	3,227,775	7,529,511	8,079,880
Total assets	6,868,694	7,347,403	3,919,390	3,544,339	10,788,084	10,891,742
Accounts payable	82,254	194,427	39,293	29,395	121,547	223,822
Other liabilities	12,568	12,022	2,910	1,670	15,478	13,692
Noncurrent liabilities	1,236,786	1,236,786	1,269,021	1,300,529	2,505,807	2,537,315
Total liabilities	1,331,608	1,443,235	1,311,224	1,331,594	2,642,832	2,774,829
Deferred Inflows						
Unearned property taxes	745,593	750,465	-	-	745,593	750,465
Net position:						
Net investment						
in capital assets	3,327,551	3,615,319	1,696,153	1,927,246	5,023,704	5,542,565
Restricted	9,651	15,782	-	-	9,651	15,782
Unrestricted	1,454,291	1,522,602	912,013	285,499	2,366,304	1,808,101
Total net position	\$4,791,493	\$5,153,703	\$2,608,166	\$2,212,745	\$7,399,659	\$7,366,448

The above table shows that the District finances are stable. Governmental restricted net position of \$9,651 in 2016 and \$15,782 in 2015, and net investment in capital assets of \$3,227,551 and \$3,615,319 in 2016 and 2015, respectively, represent the amount of net position not available for future appropriations. Whereas, unrestricted funds of \$1,454,291 and \$1,522,602 in 2016 and 2015 respectively are available for future use.

Business-type activities unrestricted net position, of \$912,013 in 2016, and \$285,499 in 2015 are available for future appropriations. Business type net position, net investment in capital assets of \$1,696,153 and \$1,927,246 are not available for future appropriations. Table A demonstrates that the District's immediate and long-range financial needs are being monitored and managed and can be reasonably expected to be met.

On a year-to-year basis the District plans to operate within its policies. Operations are expected to produce sufficient income to allow the District to implement its long range plans.

Table B shows the revenues, expenditures, and changes in net position for 2016 and 2015.

TABLE B
Condensed Statements of Revenues, Expenses and Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Charges for services	\$7,947	\$2,317	\$356,756	\$355,390	\$364,703	\$357,707
Total operating expenses	607,668	636,573	614,859	527,708	1,222,527	1,164,281
Operating income (loss)	(599,721)	(634,256)	(258,103)	(172,318)	(857,824)	(806,574)
General revenues						
Property taxes	816,096	700,490	-	-	816,096	700,490
Interest	16,320	6,363	1,235	334	17,555	6,697
Other	5,095	5,449	5,027	3,651	10,122	9,100
Total general revenues	837,511	712,302	6,262	3,985	843,773	716,287
Change in net position before transfers and contributions	237,790	78,046	(251,841)	(168,333)	(14,051)	(90,287)
Transfers	(600,000)	-	600,000	-	-	-
Capital contributions	-	-	47,262	15,754	47,262	15,754
Change in net position	(362,210)	78,046	395,421	(152,579)	33,211	(74,533)
Beginning net position	5,153,703	5,075,657	2,212,745	2,365,324	7,366,448	7,440,981
Ending net position	\$4,791,493	\$5,153,703	\$2,608,166	\$2,212,745	\$7,399,659	\$7,366,448

An examination of Table B for 2016 and 2015 shows that net position in the business-type activities increased by \$395,421 in 2016 and decreased by \$152,579 in 2015. The difference between years is the result of the transfer from the general fund of \$600,000 in 2016. Depreciation expense remains the largest expense in the utility fund. Depreciation expense was \$265,191 and \$265,564 in 2016 and 2015 respectively.

Governmental activities experienced an increase in revenues, coupled with a decrease in expenses, during 2016 over 2015. The increase in revenues was a result of increased property tax revenue from increased assessed valuation. The decrease in expenses was a result of decreased capital outlay. This resulted in the change in net position before transfers increasing from \$78,046 in 2015 to \$237,790 in 2016. Net position in the governmental activities decreased by \$362,210 in 2016 and increased by \$78,046 in 2015. This change was due to the transfer to the utility fund of \$600,000 in 2016 in order to help fund operations and maintenance.

BUDGETARY HIGHLIGHTS

The schedule of revenues and expenses, actual compared to final budget, for the General Fund is included in the financial statements on page 13. For 2016, the General Fund budgeted to spend \$1,827,532 and actually spent \$921,700. As shown on page 13, the district included in its 2016 budget \$969,222 as a contingency. This contingency amount was available to be used for capital outlay and other expenses as needed. This is not expected to have a negative impact on future budgets or operations.

The budget comparison schedules for the Park and Recreation Fund and the proprietary type fund, the Utility Fund are included in other supplementary information on pages 29 and 30.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The board of directors and management of Purgatory Metropolitan District consider many factors when they set the annual budget. Ad Valorem tax revenues, projected user fees, growth, and System Development Fees are all evaluated and considered before a final budget is adopted. In addition to normal operations, the District also allocates significant funding to capital projects as necessary. Capital projects scheduled for 2016 are as follows:

- Road paving and sealing
- Connection of new potable water supply
- Wastewater infiltration repairs to the Silverpick Line
- Water Tank Inspections

In 2016 and 2015, several new residential units were started or completed, signaling recovery within the District. In addition, the assessed value of property within the district has been increasing steadily since 2015, from that value of \$18,693,460 to the value today of \$23,405,850. The District has not increased its mill levy, but due to increased values is receiving additional property tax revenues.

CONTACTING THE DISTRICT'S FINANCE MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with the general overview of the District's finances and demonstrates the District's accountability for the money it receives. If you have any questions concerning this report or need additional information please contact Frankie White, Finance Manager of Purgatory Metropolitan District at P.O. Box 2501, Durango, Colorado 81302 or (970) 247-3954.

Government-wide Financial Statements

Purgatory Metropolitan District
Statement of Net Position
December 31, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,540,823	\$ 948,476	\$ 2,489,299
Accounts receivable	-	4,300	4,300
Property taxes receivable	745,593	-	745,593
Other receivables	17,347	-	17,347
Prepaid expenses	594	1,440	2,034
Total current assets	<u>2,304,357</u>	<u>954,216</u>	<u>3,258,573</u>
Capital assets			
Non-depreciable	1,129,223	14,451	1,143,674
Depreciable	5,271,549	7,005,356	12,276,905
Accumulated depreciation	<u>(1,836,435)</u>	<u>(4,054,633)</u>	<u>(5,891,068)</u>
Total capital assets	<u>4,564,337</u>	<u>2,965,174</u>	<u>7,529,511</u>
Total assets	<u>6,868,694</u>	<u>3,919,390</u>	<u>10,788,084</u>
LIABILITIES			
Current liabilities			
Accounts payable	82,254	39,293	121,547
Accrued payroll	3,154	2,910	6,064
Other liabilities	9,414	-	9,414
Total current liabilities	<u>94,822</u>	<u>42,203</u>	<u>137,025</u>
Noncurrent liabilities			
Amounts due to developer	<u>1,236,786</u>	<u>1,269,021</u>	<u>2,505,807</u>
Total liabilities	<u>1,331,608</u>	<u>1,311,224</u>	<u>2,642,832</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes	<u>745,593</u>	<u>-</u>	<u>745,593</u>
Total deferred inflows of resources	745,593	-	745,593
NET POSITION			
Net investment in capital assets	3,327,551	1,696,153	5,023,704
Restricted for emergencies	9,651	-	9,651
Unrestricted	<u>1,454,291</u>	<u>912,013</u>	<u>2,366,304</u>
Total net position	<u>\$ 4,791,493</u>	<u>\$ 2,608,166</u>	<u>\$ 7,399,659</u>

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

Purgatory Metropolitan District
Statement of Activities
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
General government	\$ 174,688	\$ -	\$ -	\$ (174,688)	\$ -	\$ (174,688)
Road operations	347,132	-	-	(347,132)	-	(347,132)
Park and recreation	85,848	7,947	-	(77,901)	-	(77,901)
Total governmental activities	<u>607,668</u>	<u>7,947</u>	<u>-</u>	<u>(599,721)</u>	<u>-</u>	<u>(599,721)</u>
Business-type activities						
Utility fund	614,859	356,756	47,262	-	(210,841)	(210,841)
Total business-type activities	<u>614,859</u>	<u>356,756</u>	<u>47,262</u>	<u>-</u>	<u>(210,841)</u>	<u>(210,841)</u>
Total primary government	<u>\$ 1,222,527</u>	<u>\$ 364,703</u>	<u>\$ 47,262</u>	<u>(599,721)</u>	<u>(210,841)</u>	<u>(810,562)</u>
		General revenues				
		Taxes		816,096	-	816,096
		Interest income		16,320	1,235	17,555
		Other		5,095	5,027	10,122
		Transfers		(600,000)	600,000	-
		Total general revenues		<u>237,511</u>	<u>606,262</u>	<u>843,773</u>
		Change in net position		(362,210)	395,421	33,211
		Net position, beginning		<u>5,153,703</u>	<u>2,212,745</u>	<u>7,366,448</u>
		Net position, ending		<u>\$ 4,791,493</u>	<u>\$ 2,608,166</u>	<u>\$ 7,399,659</u>

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

Fund Financial Statements

Purgatory Metropolitan District
Balance Sheet
Governmental Funds
December 31, 2016

	General Fund	Park and Recreation Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,540,823	\$ -	\$ 1,540,823
Property taxes receivable	745,593	-	745,593
Other receivables	17,347	-	17,347
Prepaid expenses	594	-	594
Total assets	\$ 2,304,357	\$ -	\$ 2,304,357
LIABILITIES			
Accounts payable	\$ 82,254	\$ -	\$ 82,254
Accrued payroll	3,154	-	3,154
Other liabilities	9,414	-	9,414
Total liabilities	94,822	-	94,822
DEFERRED INFLOWS OF RESOURCES			
Property taxes	745,593	-	745,593
Total deferred inflows of resources	745,593	-	745,593
FUND BALANCES			
Nonspendable - prepaid expenses	594	-	594
Restricted for emergencies	9,651	-	9,651
Unassigned	1,453,697	-	1,453,697
Total fund balances	1,463,942	-	1,463,942
Total liabilities, deferred inflows of resources and fund balances	\$ 2,304,357	\$ -	\$ 2,304,357

Reconciliation to the Statement of Net Position

Total fund balances - governmental funds		\$ 1,463,942
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets, net of accumulated depreciation, used in governmental funds are not financial resources, and, therefore, are not reported in the governmental funds.		4,564,337
Advances from developers increase liabilities; therefore, these amounts are not revenue on the Statement of Activities		(1,236,786)
Net position of governmental activities		\$ 4,791,493

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

Purgatory Metropolitan District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	Park and Recreation Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 816,096	\$ -	\$ 816,096
Service revenue	7,947	-	7,947
Other	6,895	-	6,895
Interest income	16,320	-	16,320
Total revenues	847,258	-	847,258
EXPENDITURES			
General government	174,688	-	174,688
Road operations	101,784	-	101,784
Park and recreation	37,782	-	37,782
Capital outlay	7,446	-	7,446
Total expenditures	321,700	-	321,700
Excess (deficiency) of revenues over expenditures	525,558	-	525,558
OTHER FINANCING SOURCES (USES)			
Transfers-in	805,056	-	805,056
Transfers-out	(600,000)	(805,056)	(1,405,056)
Total other financing sources (uses)	(600,000)	(805,056)	(600,000)
Net change in fund balances	(74,442)	(805,056)	(74,442)
Fund balances, beginning of year	733,328	805,056	1,538,384
Fund balances, end of year	\$ 658,886	\$ -	\$ 1,463,942

Reconciliation to the Statement of Activities

Net change in fund balances - governmental funds \$ (74,442)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Add current year capital outlay	7,446	
Less current year depreciation	(275,191)	
Less loss on disposal of assets	(20,023)	
Subtotal	(287,768)	(287,768)
Change in net position of governmental activities		\$ (362,210)

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

Purgatory Metropolitan District
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual - General Fund
For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variances with Budget Favorable (Unfavorable)
Revenues			
Taxes	\$ 750,465	\$ 816,096	\$ 65,631
Service revenue	-	7,947	7,947
Interest income	3,500	16,320	12,820
Other income	65,535	6,895	(58,640)
Total revenues	<u>819,500</u>	<u>847,258</u>	<u>27,758</u>
Expenditures			
Office rent	1,250	-	1,250
Road maintenance	45,000	17,713	27,287
Snow plowing and removal	75,000	84,071	(9,071)
Park maintenance	-	3,120	(3,120)
Other operating expense	6,000	16,448	(10,448)
Staff	58,000	87,290	(29,290)
Accounting services	8,750	29,181	(20,431)
Legal expense	5,000	15,098	(10,098)
Audit expense	13,000	12,250	750
Professional services	1,000	3,186	(2,186)
County Treasurer's fees	28,560	22,594	5,966
Insurance	4,000	11,274	(7,274)
Utilities	1,250	9,020	(7,770)
Miscellaneous	1,500	3,009	(1,509)
Capital outlay	-	7,446	(7,446)
Transfer out	610,000	600,000	10,000
Contingency	969,222	-	969,222
Total expenditures	<u>1,827,532</u>	<u>921,700</u>	<u>905,832</u>
Revenues over (under) expenditures	(1,008,032)	(74,442)	933,590
Fund balance, beginning of year	<u>1,008,032</u>	<u>733,328</u>	<u>(274,704)</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 658,886</u>	<u>\$ 658,886</u>

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

Purgatory Metropolitan District
Statement of Net Position
Proprietary Fund
December 31, 2016

	Utility Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 948,476
Accounts receivable	4,300
Prepaid expenses	1,440
Total current assets	954,216
Noncurrent assets	
Capital assets	
Non-depreciable	14,451
Depreciable	7,005,356
Accumulated depreciation	(4,054,633)
Total capital assets	2,965,174
Total assets	3,919,390
LIABILITIES	
Current liabilities	
Accounts payable	39,293
Accrued payroll	2,910
Total current liabilities	42,203
Noncurrent liabilities	
Amounts due to developer	1,269,021
Total liabilities	1,311,224
NET POSITION	
Net investment in capital assets	1,696,153
Unrestricted	912,013
Total net position	\$ 2,608,166

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

Purgatory Metropolitan District
Statement of Revenues, Expenses, and Changes in
Fund Net Position - Proprietary Fund
For the Year Ended December 31, 2016

	Utility Fund
OPERATING REVENUES	
Charges for services	\$ 356,756
Other operating revenue	5,027
Total operating revenues	361,783
OPERATING EXPENSES	
Utilities	50,472
Maintenance and repairs	113,563
Insurance	6,224
Supplies	2,057
Salaries	58,876
Payroll taxes	4,504
Employee benefits	12,110
Administrative and general	94,091
Depreciation	265,191
Total operating expenses	607,088
Operating loss	(245,305)
NONOPERATING REVENUE (EXPENSE)	
Interest income	1,235
Loss on disposal of assets	(7,771)
Total nonoperating revenue (expense)	(6,536)
Loss before contributions and transfers	(251,841)
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital contributions - tap fees	47,262
Transfers in	600,000
Total capital contributions and transfers	647,262
CHANGE IN NET POSITION	395,421
Net position, beginning of year	2,212,745
Net position, end of year	\$ 2,608,166

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

Purgatory Metropolitan District
Statement of Cash Flows - Proprietary Fund
For the Year Ended December 31, 2016

	Utility Fund
Cash flows from operating activities	
Cash received from customers	\$ 365,863
Cash payments to suppliers	(251,714)
Cash payments to employees	(74,250)
Net cash provided by operating activities	39,899
Cash flows from noncapital financing activities	
Transfers from other funds	600,000
Net cash provided (used) by noncapital financing activities	600,000
Cash flows from capital and related financing activities	
Acquisition of capital assets	(10,361)
Payments made on advances from developer	(31,508)
Tap fees collected from customers	47,262
Net cash used in capital and related financing activities	5,393
Cash flows from investing activities	
Interest received	1,235
Net cash provided by investing activities	1,235
Net change in cash and cash equivalents	646,527
Cash and cash equivalents, beginning of year	301,949
Cash and cash equivalents, end of year	\$ 948,476
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (245,305)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	265,191
(Increase) decrease in	
Accounts receivable	4,080
Prepaid expenses	4,795
Increase (decrease) in	
Accounts payable	1,240
Accrued payroll	9,898
Net cash provided by operating activities	\$ 39,899

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

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

Purgatory Water and Sanitation District was formed in 1969, under the laws of the State of Colorado, to provide water and sanitation services to its customers in the District. By resolution of the Board of Directors in 1982, the District was converted to a metropolitan district in order to provide, in addition to its water and sanitation services, street improvements, safety protection facilities, park and recreation facilities, and mosquito control facilities and services to the residents and property owners of the District.

In June, 2007, the Board of Directors approved the formation of the Purgatory Metropolitan District La Plata/San Juan Sub-District (the “Sub-District”) in accordance with C.R.S. 32-1-1101(1)(f). The Sub-District, a quasi-municipal corporation, was formed for the purpose of collecting an additional mill levy to fund new infrastructure or improvements required to service the area. The Sub-District is fully controlled by the District’s board of directors. The Sub-District, which began operations in 2008, is a blended component unit and reported as part of overall operations of the District. The Sub-District does not have separately issued audit reports. For the year ended December 31, 2016, the District received \$152,948 in property tax revenue and had expenditures of \$152,948. The Sub-District had no fund balance or net position as of December 31, 2016.

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 prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as they relate to government entities. Following is a summary of the more significant policies.

Basis of Presentation

The District’s basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government.

The Statement of Net Position presents the financial condition of the governmental activities at year-end. The Statement of Activities presents a comparison between program expenses and the program revenues for each program or function of the District’s governmental activities. Program expenses are those that are specifically associated with a service, program, or department; and therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues, with certain limited exceptions. The comparison of program expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from general District revenues.

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds.

Fund Accounting

The accounts of the District are organized on the basis of funds. Each fund is considered an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other assets together with all related liabilities, obligations, reserves and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The categories of funds used by the District are governmental and proprietary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the District's governmental funds:

General Fund – The General Fund is the operating fund for the District and is used to account for all financial resources except those required to be accounted for in another fund.

Park and Recreation Fund – The Park and Recreation Fund was formed in 2009 to account for the activities related to the parks located within the District. Effective January 1, 2016, as a result of the Board's approval, this fund is to be reported as part of General Fund.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The District's proprietary fund is classified as an enterprise fund. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the District's proprietary fund:

Utility Fund – The Utility Fund is used to account for the revenues generated from the charges for distribution of water and sanitary sewer services provided to the residential and commercial users of the District.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included in the Statement of Net Position.

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

The Statement of Revenues, Expenditures, and Changes in Fund Balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures.

Revenues

Revenues resulting from exchange transactions, in which each party gives and receives essentially the same value, is recorded on the accrual basis, when the exchange takes place. On a modified accrual basis revenue is recorded in the fiscal year in which the resources are both measurable and available to finance expenditures of the fiscal period typically within sixty days of realization.

Nonexchange transactions, in which the District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

Budgets and Budgetary Accounting

The District Board follows these procedures in establishing the budgetary data reflected in the financial statements:

In accordance with the State Statute, prior to October 15, the District's Manager submits to the Board a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures (expenses) and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding two years. State Statute requires that a detailed line item budget be submitted in the summary form. In addition, detailed line item budgets are included for administrative control at the fund level.

Public hearings are conducted to obtain taxpayer comment, and prior to December 31, the budget is legally enacted through passage of a budget resolution.

The District's manager is required to present a monthly report to the District's Board explaining any variance from the approved budget.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Park and Recreation Fund and the Utility Fund.

The budgets for the General Fund and the Park and Recreation Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). In 2016, the Park and Recreation Fund expenditures exceeded the appropriations. The Park and Recreation budget can be found on page 28. Expenditures exceeded appropriations as a result of the board's approval to report the Park and Recreation Fund as part of the General Fund effective January 1, 2016.

Colorado State Statute requires the adoption of a budget for proprietary funds. The budget for the Utility Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America, except that the District excludes depreciation and amortization and includes tap fees as revenue. Appropriations lapse at the end of the calendar year.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers demand deposits at financial institutions and funds on deposit with Colotrust to be cash equivalents.

Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. All unpaid taxes levied December 31 become delinquent on June 16. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided.

Allowance for Uncollectible Receivables

An allowance for uncollectible receivables is provided for those accounts that management feels may be ultimately uncollectible.

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets

General capital assets are those assets not specifically related to activities reported in other funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements. Capital assets utilized by the proprietary fund are reported both in the business-type activities column of the government-wide Statement of Net Position and in the respective fund.

All capital assets are recorded at cost, or estimated historical cost, and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The District maintains a capitalization policy of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets except land and water rights are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Water and Wastewater treatment facilities	20-50 years
Roads and improvements	15-20 years
Machinery and equipment	5-15 years

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 amounts that qualify as deferred outflows of resources.

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 governmental funds report unavailable revenues from property taxes for which there is an enforceable legal claim as of December 31, 2016, which were levied to finance year 2016. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Position, invested in capital assets, consists of capital assets, net of accumulated depreciation and any related debt. Net Position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws, or regulations of other governments.

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted net position are available.

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balances

The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement defines fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. Based on this statement, fund balances of governmental funds can be classified as follows:

- Non-spendable fund balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid expenses) or it is legally or contractually required to be maintained intact.
- Restricted fund balance – The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation. The District's restricted fund balance represent amounts reserved for emergencies under the Colorado State Constitution.
- Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the Board of Directors prior to the end of the fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors. The District has no committed fund balance.
- Assigned fund balance – The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board of Directors or other individuals authorized to assign funds to be used for a specific purpose. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund. The District has no assigned fund balance.
- Unassigned fund balance – The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the general fund.

If both restricted and unrestricted amounts of fund balance are available for use when expenditure is made, it is the District's policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned, and then unassigned.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for water and sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund.

Capital Contributions

Contributions of capital in the proprietary fund financial statements arise from outside contributions of capital assets, tap fees, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates.

Implementation of New GASB Statements

Beginning in fiscal year 2016 the District implemented the following statement issued by the Governmental Accounting Standards Board (GASB): GASB statement 72 “*Fair Value Measurement and Applications*”. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

NOTE 2 – CASH AND INVESTMENTS

Cash Deposits

At December 31, 2016, the District’s cash deposits had a carrying value of \$1,828,046 and a corresponding bank balance of \$1,838,767 of which \$250,000 was FDIC insured and \$1,588,767 was collateralized by securities held by the pledging financial institution’s trust department or agent in the District’s name.

Deposits are exposed to custodial credit risk (the risk that, in the event of the failure of a depository financial institution, the government would not be able to recover deposits or would not be able to recover collateral securities that are in the possession of an outside party), if they are not covered by depository insurance and are collateralized with securities held by the pledging financial institution, except for deposits collateralized by certain types of collateral pools including a single financial institution collateral pool where the fair value of the pool is equal to or exceeds all uninsured public deposits held by the financial institution (e.g. deposits insured by The Public Deposit Protection Act (PDPA). Accordingly, none of the District’s deposits at December 31, 2016, are deemed to be exposed to custodial credit risk.

The Colorado Public Deposit Protection Act requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is specified under the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all 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 equal to 102% of the uninsured deposits.

The Colorado Divisions of Banking and Financial Services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets.

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 2 – CASH AND INVESTMENTS, continued

Investments

Colorado statute specifies investment instruments meeting defined rating and risk criteria in which special districts may invest, including:

- Obligations of the United States and certain United States government agency securities.
- General obligation and revenue bonds of United States local government entities.
- Bankers' acceptances of certain banks.
- Commercial paper.
- Local government investment pools.
- Written repurchase agreements collateralized by certain authorized securities.
- Certain money market funds.

The District does not have custodial risk policies for investments.

At December 31, 2016, the District had \$661,253 invested in Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for government entities in Colorado to pool surplus funds. As an investment pool, COLOTRUST operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. The Trust invests in securities that are specified by the Colorado Revised Statutes (24-75-601). These assets are valued at net asset value per share as determined by the pool and are not subject to leveling as required by GASB Statement 72. Authorized securities include US Treasuries, US Agencies, commercial paper, repurchase agreements and bank deposits (collateralized through PDPA). The Trust operates similar to a 2a7-like money market fund with a share value equal to \$1.00 and a maximum weighted average maturity of 60 days. COLOTRUST is rated AAA by the Standard & Poor's Corporation. Designated custodial banks provide safekeeping and depository services to the Trusts in connection with the direct investment and withdrawal functions of the Trusts. Substantially all securities owned by the Trusts are held by the Federal Reserve Bank in the account maintained for the custodial bank.

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 3 – CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2016 is as follows:

	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>
Governmental Activities				
Non- Depreciable				
Land and Land Improvements	\$ 1,129,223	\$ -	\$ -	\$ 1,129,223
Depreciable				
Road and Park improvements	4,272,787	2,047	(141,534)	4,133,300
Buildings	920,151	-	-	920,151
Equipment	212,699	5,399	-	218,098
Total Depreciable Assets	<u>5,405,637</u>	<u>7,446</u>	<u>(141,534)</u>	<u>5,271,549</u>
Total Capital Assets	<u>6,534,860</u>	<u>7,446</u>	<u>(141,534)</u>	<u>6,400,772</u>
Less accumulated depreciation				
Road and Park improvements	(1,640,460)	(225,393)	121,511	(1,744,342)
Buildings	(30,672)	(30,672)	-	(61,344)
Equipment	(11,623)	(19,126)	-	(30,749)
Total accumulated depreciation	<u>(1,682,755)</u>	<u>(275,191)</u>	<u>121,511</u>	<u>(1,836,435)</u>
Governmental Activities Capital				
Assets, Net	<u>\$ 4,852,105</u>	<u>\$ (267,745)</u>	<u>\$ (20,023)</u>	<u>\$ 4,564,337</u>
Governmental activities depreciation expense by function:				
Road operations		\$ 227,125		
Park and recreation		48,066		
		<u>\$ 275,191</u>		

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 3 – CAPITAL ASSETS, continued

Capital asset activity for business-type activities for the year ended December 31, 2016 is as follows:

	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>
Business-type Activities				
Non-Depreciable				
Land and water rights	\$ 3,651	\$ -	\$ -	\$ 3,651
Construction in progress	10,800	-	-	10,800
	<u>14,451</u>	<u>-</u>	<u>-</u>	<u>14,451</u>
Depreciable				
Water treatment facilities	3,636,111	-	(30,525)	3,605,586
Wastewater treatment facilities	3,074,439	-	(6,204)	3,068,235
Machinery and equipment	381,102	10,361	(59,928)	331,535
Total Depreciable Assets	<u>7,091,652</u>	<u>10,361</u>	<u>(96,657)</u>	<u>7,005,356</u>
Total Capital Assets	<u>7,106,103</u>	<u>10,361</u>	<u>(96,657)</u>	<u>7,019,807</u>
Less accumulated depreciation				
Water treatment facilities	(1,810,364)	(142,057)	26,914	(1,925,507)
Wastewater treatment facilities	(1,799,141)	(96,184)	5,811	(1,889,514)
Machinery and equipment	(268,823)	(26,950)	56,161	(239,612)
Total accumulated depreciation	<u>(3,878,328)</u>	<u>(265,191)</u>	<u>88,886</u>	<u>(4,054,633)</u>
Business-type Activities Capital				
Assets, Net	<u>\$ 3,227,775</u>	<u>\$ (254,830)</u>	<u>\$ (7,771)</u>	<u>\$ 2,965,174</u>
Business-type activities depreciation expense by function:				
Utility Fund		<u>\$ 265,191</u>		

NOTE 4 – INTERFUND TRANSFERS

The transfer of \$600,000 from the General Fund to the Utility Fund was operations and maintenance. The transfer of \$805,056 from the Park and Recreation Fund to the General Fund was for the purposes of closing the park operations to the General Fund based on Board resolution.

NOTE 5 – DEVELOPER MASTER PAYMENT AGREEMENT

The District has entered into a Master Payment Agreement for Dedicated and Accepted Infrastructure Costs (the “agreement”) with Durango Mountain Land Company LLC (the “Developer”). As part of the agreement, the District has agreed to utilize System Development Fees, current and future, collected from property owners within the District to reimburse the Developer on behalf of the District for costs incurred by the Developer for newly constructed infrastructure dedicated to and accepted by the District that is permitted under the terms of the agreement.

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 5 – DEVELOPER MASTER PAYMENT AGREEMENT, continued

From the inception of the agreement, the District has accepted infrastructure valued at \$5,142,641 from the developer in exchange for a long-term payable in the amount of \$3,221,444 and previously collected system development fees. This liability is split between the general fund of \$1,473,813 and the utility fund of \$1,747,631. According to the agreement, the District will set aside 100% of the System Development Fees collected from properties that are being developed in order to pay down this advance. The general fund portion was treated as a developer advance on the governmental statements upon inception, and a long-term developer payable on the government-wide statements. The utility fund portion of the liability is reflected as a long-term payable in the respective fund. In 2016, the District made repayments on this advance of \$31,508. As of December 31, 2016, the District has repaid a total of \$715,637 of these advances leaving a balance of \$1,236,786 in governmental activities on the Statement of Net Position and a balance of \$1,269,021 in the business-type activities and Utility Fund Statements of Net Position.

NOTE 6 – 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) as of December 31, 2016. 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 the past three years.

The District pays annual premiums to the Pool for liability, property, and public officials' 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 the purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 7 – TAX, SPENDING, AND DEBT LIMITATIONS

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

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

Purgatory Metropolitan District
Notes to the Financial Statements
December 31, 2016

NOTE 7 – TAX, SPENDING, AND DEBT LIMITATIONS, continued

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending, excluding bonded debt service. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

In May 2000, an election was held whereby the voters in the District approved the authorization of the District to retain and spend all revenues, and as a result, is no longer subject to the property tax revenue limitations under C.R.S. 29-1-301.

Other Supplementary Information

Purgatory Metropolitan District
Budgetary Comparison Schedule
Park and Recreation Fund
For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variances with Budget Favorable (Unfavorable)
Revenues			
Interest income	\$ 250	\$ -	\$ (250)
Fees and other income	4,600	-	(4,600)
Operating transfer	10,000	-	(10,000)
	<u>14,850</u>	<u>-</u>	<u>(14,850)</u>
Expenditures			
Staff	22,500	-	22,500
Park maintenance	14,000	-	14,000
Miscellaneous	20,750	-	20,750
Transfer out	-	805,056	(805,056)
Contingency	624,155	-	624,155
	<u>681,405</u>	<u>805,056</u>	<u>(123,651)</u>
Net change in fund balance	<u>\$ (666,555)</u>	(805,056)	<u>\$ (138,501)</u>
Fund balance, beginning of year		<u>805,056</u>	
Fund balance, end of year		<u>\$ -</u>	

Purgatory Metropolitan District
Budgetary Comparison Schedule
Utility Fund
For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variances with Budget Favorable (Unfavorable)
REVENUES			
Service revenues	\$ 352,447	\$ 356,756	\$ 4,309
Tap fees	-	47,262	47,262
Interest Income	-	1,235	1,235
Transfer in	600,000	600,000	-
Penalty charges	2,300	5,027	2,727
Total revenues	<u>954,747</u>	<u>1,010,280</u>	<u>55,533</u>
EXPENDITURES			
Inspection and testing	5,800	6,100	(300)
Chemicals	2,700	2,057	643
Office rent	2,500	-	2,500
Maintenance and repairs	1,050,000	113,563	936,437
Utilities	54,500	50,472	4,028
Other operating expenses	10,000	12,113	(2,113)
Outside services	44,000	-	44,000
Accounting services	24,500	17,994	6,506
Legal expense	-	1,223	(1,223)
Staff	75,000	75,490	(490)
Professional services	35,000	52,494	(17,494)
Insurance	4,000	6,224	(2,224)
Special fees and permits	5,500	4,167	1,333
Contingency	7,304	-	7,304
Total expenditures	<u>1,320,804</u>	<u>341,897</u>	<u>978,907</u>
Change in Net Position, budgetary basis	<u>\$ (366,057)</u>	<u>668,383</u>	<u>\$ 1,034,440</u>
GAAP Basis Adjustments			
Loss on disposal of assets		(7,771)	
Depreciation		(265,191)	
Total GAAP Basis Adjustments		<u>(272,962)</u>	
Change in Net Position, GAAP Basis		395,421	
Net position, beginning of year		<u>2,212,745</u>	
Net position, end of year		<u>\$ 2,608,166</u>	