

Reata South Metropolitan District

Financial Statements

Year Ended December 31, 2016

with

Independent Auditors' Report



RECEIVED

By the Office of the State Auditor at 10:08 am, Aug 16, 2017

C O N T E N T S

	<u>Page</u>
<u>Independent Auditors' Report</u>	i
<u>Management Discussion and Analysis</u>	iii - vi
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service Fund	20
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected	21



INDEPENDENT AUDITOR'S REPORT

Reata South Metropolitan District
Douglas County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Reata South Metropolitan District, Douglas County, Colorado, as of and for the year ended December 31, 2016, 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Reata South Metropolitan District, Douglas County, Colorado, as of December 31, 2016, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's discussion and analysis on pages iii through iv 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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 Reata South Metropolitan District's basic financial statements. The Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service 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 Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Watson Coon & Associates P.C.

July 27, 2017
Greenwood Village, Colorado

**Reata South Metropolitan District
Unincorporated Douglas County, Colorado
Management's Discussion and Analysis
For the Year Ended December 31, 2016**

As management of the Reata South Metropolitan District, unincorporated Douglas County, Colorado (the District) we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our annual audited financial statements.

Reata South Metropolitan District was established in 2005 as a special district proposed to serve the needs of a residential planned development in unincorporated Douglas County, Colorado, generally known as the Colorado Golf Club or Reata South Planned Development (the Development). The District remained inactive for all intents and purposes until 2007 when the infrastructure of the Development was conveyed to the District and a \$19,350,000 general obligation bond was issued to pay for a portion of the improvements that were transferred to the District.

Accordingly, the activity presented in these financial statements represents all material activity for the District since its inception in 2005.

Financial Highlights

- The liabilities and deferred inflows of resources of the District exceeded its assets at the close of the most recent fiscal year by \$21,029,787 (net position deficit). Of total assets, \$18,993,503 was capital assets (net of accumulated depreciation) of the District and may not be used to meet the District's ongoing obligations to citizens and creditors.
- The District's cash increased by \$88,392 during 2016. Overall, the District's total net position decreased by \$2,479,461 primarily due to interest expense on bonds exceeding property tax revenue, accrual of interest, and depreciation expense. It should be noted the District recognized depreciation expense (a non-cash expense) in the amount of \$846,433 during 2016. Excluding the charge for depreciation expense, net position decreased by \$1,633,029.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's governmental-type fund financial statements are comprised of three components: 1) basic financial statements, 2) notes to the financial statements and 3) required supplementary information that provides comparisons of budget to actual on the US GAAP (Generally Accepted Accounting Principles in the United States of America) budgetary basis.

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 Statement of Net Position presents information on all of the District's assets, liabilities, and deferred inflows or resources, with the difference being 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 presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported 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.

The government-wide financial statements present activities that are intended to recover all or a significant portion of their costs through property and specific ownership taxes, and fees. The government-wide financial statements can be found on pages 1 through 2 of the financial statements.

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 financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets by \$21,029,787 at the close of the most recent fiscal year.

By far the largest portion of the District's net position is invested in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District Net Position

	<u>12/31/2016</u>	<u>12/31/2015</u>
Current assets	\$ 1,370,202	\$ 1,322,781
Restricted assets	1,952,843	1,971,501
Capital assets, net of accumulated depreciation	18,993,503	19,839,935
Total assets	<u>22,316,548</u>	<u>23,134,217</u>
Long-term obligations:		
General Obligation Bonds	18,975,000	19,200,000
Funding Agreement	12,266,051	12,266,051
Letter of Credit Draw	2,148,536	1,354,190
Accrued interest payable	9,119,456	8,026,648
Other liabilities	21,784	34,853
Total liabilities	<u>42,530,827</u>	<u>40,881,742</u>
Deferred revenue	815,508	802,801
Total deferred inflows	<u>815,508</u>	<u>802,801</u>
Restricted	(7,140,958)	(6,029,679)
Unrestricted	(13,888,829)	(12,520,647)
Total net position(deficit)	<u>\$ (21,029,787)</u>	<u>\$ (18,550,326)</u>

Change in the District's Net Position

	<u>Year Ended</u> <u>December 31,</u> <u>2016</u>	<u>Year Ended</u> <u>December 31,</u> <u>2015</u>
User charges:		
Facility Fees	\$ 6,000	\$ 4,000
Property and specific ownership taxes	876,662	858,374
Operating service fee	570,161	570,146
Other	23,904	8,942
Total revenues	1,476,727	1,441,462
Expenses		
Operating	1,471,381	1,516,570
Debt service	2,484,807	2,437,805
Total expenses	3,956,188	3,954,375
Decrease in net position	(2,479,461)	(2,512,913)
Net position – beginning of year	(18,550,326)	(16,037,413)
Net position – end of year	\$ (21,029,787)	\$ (18,550,326)

Capital Asset and Debt Administration

Capital assets – The District's investment in capital assets for its government-type activities as of December 31, 2016, is \$18,993,503 (net of accumulated depreciation). The investment in capital assets includes land, land improvements, buildings, equipment, leasehold improvements and vehicles.

District Capital Assets

	<u>12/31/2016</u>	<u>12/31/2015</u>
Land	\$ 2,620	\$ 2,620
Streets	18,975,568	19,829,010
Landscape improvements	15,315	8,305
Total	\$18,993,503	\$ 19,839,935

Long-term debt - At the end of the current fiscal year, the District had general obligation debt outstanding for construction of the Development infrastructure in the amount of \$18,975,000 which matures December 1, 2037.

Board of Directors Emphasis for the 2016 and 2017 budget years

The District concentrated on implementing policies and procedures necessary to provide expected services to the Development. The District's infrastructure was substantially completed in prior years. Operating costs of excluding depreciation expense, and are paid for from the imposition of a 5.000 mill levy, operating service fees imposed on each lot, and draws on reserve funds, if necessary. In 2016 and 2015, revenue from the mill levy and operating fees covered all operating expenses. Debt service principal and interest expenditures of \$1,617,000, are paid from the imposition of a 50.000 mill levy, facility fees, and draws on surplus funds and the letter of credit.

In developing the budget for the 2017 fiscal year, the District is continuing to impose a 50.000 mill levy to service the bond debt and a 5.000 mill levy to pay a portion of the operating expenses. An operating service fee on each property will be assessed to cover expenditures in excess of the 5.000 mill levy. The proposed operating service fee in the 2017 budget is \$566,500 and tax revenue is budgeted to be \$74,137 for operations and \$741,371 for debt service. Operating expenses are budgeted to be \$666,997 and \$19,976 for an emergency reserve. Interest on the District debt is budgeted to be \$1,374,988 and the principal payment is budgeted for \$240,000. The General fund ending fund balance reflects \$110,000 as of December 31, 2017 reserved for future road maintenance. The Debt Service Fund ending balance is budgeted to be \$1,935,000 which is the reserve fund requirement of the Bonds.

Factors Affecting Financial Condition

The slowdown in the housing market and the reassessment of property values within the District and Douglas County continues to be a concern for the repayment of the District's General Obligation Limited Tax Limited Series 2007 Bonds as originally scheduled. To meet the scheduled repayment of the Series 2007 Bonds, the District was required to draw on the Developer Guaranty held by the trustee and will need to see an increase in the assessed valuation from the construction and completion of residential units within the boundaries of the District.

Steps taken by the Board to Address the Forecasted Revenue Shortfall

On September 23, 2014 the District entered into a Purchase and Sale Agreement with Betts Lake, LLC (the "buyer"). The Buyer agrees to purchase approximately 80 acres. If the rezoning of the land to higher density housing is approved by the County, the agreement will benefit the District from the sale of the lots and the increased assessed valuation resulting in increased tax revenue. On March 23, 2016, the Purchase and Sale Agreement lapsed and was not extended, due to an internal issue for the developer which had to be resolved in order to proceed with the Agreement. The District Board, however, agreed to renew the Agreement once the issue was resolved to the Board's satisfaction. This Agreement was subsequently renewed on March 7, 2017. The Buyer has not yet received necessary Douglas County rezoning and other approvals but is continuing to work toward obtaining such approvals.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

District Accountant – Reata South Metropolitan District
Simmons & Wheeler P.C.
304 Inverness Way South, Suite 490
Englewood, CO 80112

Reata South Metropolitan District

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

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 474,102	\$ -	\$ 474,102	\$ -	\$ 474,102
Cash and investments - restricted	-	1,952,843	1,952,843	-	1,952,843
Accounts receivable:					
Cash with county treasurer	568	5,679	6,247	-	6,247
Taxes receivable	74,137	741,371	815,508	-	815,508
Operating service fees	64,680	-	64,680	-	64,680
Prepaid expenses	9,665	-	9,665	-	9,665
Capital assets not being depreciated	-	-	-	2,620	2,620
Capital assets, net of accumulated depreciation	-	-	-	18,990,883	18,990,883
Total Assets:	<u>\$ 623,152</u>	<u>\$ 2,699,893</u>	<u>\$ 3,323,045</u>	<u>18,993,503</u>	<u>22,316,548</u>
LIABILITIES					
Accounts payable	\$ 21,784	\$ -	\$ 21,784	-	21,784
Accrued interest	-	-	-	9,119,456	9,119,456
Long-term liabilities:					
Due within one year	-	-	-	240,000	240,000
Due in more than one year	-	-	-	33,149,587	33,149,587
Total Liabilities	<u>21,784</u>	<u>-</u>	<u>21,784</u>	<u>42,509,043</u>	<u>42,530,827</u>
DEFERRED INFLOWS OF RESOURCES					
Property tax revenue	<u>74,137</u>	<u>741,371</u>	<u>815,508</u>	-	<u>815,508</u>
Total Deferred Inflows of Resources	<u>74,137</u>	<u>741,371</u>	<u>815,508</u>	<u>-</u>	<u>815,508</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Nonspendable:					
Prepays	9,665	-	9,665	(9,665)	-
Restricted:					
Emergencies	19,976	-	19,976	(19,976)	-
Debt service	-	1,958,522	1,958,522	(1,958,522)	-
Assigned:					
Street repairs	90,000	-	90,000	(90,000)	-
Unassigned	<u>407,590</u>	<u>-</u>	<u>407,590</u>	<u>(407,590)</u>	<u>-</u>
Total Fund Balances	<u>527,231</u>	<u>1,958,522</u>	<u>2,485,753</u>	<u>(2,485,753)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 623,152</u>	<u>\$ 2,699,893</u>	<u>\$ 3,323,045</u>		
Net Position:					
Restricted for:					
Emergencies				19,976	19,976
Debt service				(7,160,934)	(7,160,934)
Unrestricted				<u>(13,888,829)</u>	<u>(13,888,829)</u>
Total Net Position				<u>\$ (21,029,787)</u>	<u>\$ (21,029,787)</u>

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

Reata South Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	<u>General</u>	Debt <u>Service</u>	<u>Total</u>	<u>Adjustments</u>	Statement of <u>Activities</u>
EXPENDITURES					
General operating:					
Accounting/Audit	\$ 27,427	\$ -	\$ 27,427	\$ -	\$ 27,427
Legal	34,424	-	34,424	-	34,424
Security Personnel	232,786	-	232,786	-	232,786
Facilities Manager	64,057	-	64,057	-	64,057
Security equip/supplies	21,250	-	21,250	-	21,250
Vehicle purchase / registration	7,465	-	7,465	-	7,465
Fuel/repair/equip	12,896	-	12,896	-	12,896
Building maintenance	4,878	-	4,878	-	4,878
Landscape maintenance	17,222	-	17,222	-	17,222
Irrigation water	4,806	-	4,806	-	4,806
Insurance	21,875	-	21,875	-	21,875
Office expense	932	-	932	-	932
Utilities - electric	9,876	-	9,876	-	9,876
Utilities - telephone	1,668	-	1,668	-	1,668
Gate repair/maintenance	11,243	-	11,243	-	11,243
Monument maintenance	817	-	817	-	817
Miscellaneous	1,781	-	1,781	-	1,781
Pest control	48,002	-	48,002	-	48,002
Landscape improvements	2,635	-	2,635	-	2,635
Weed control	19,198	-	19,198	-	19,198
Streets-sweeping & maintenance	13,362	-	13,362	-	13,362
Streets-snow removal	15,200	-	15,200	-	15,200
Storm Drain Maintenance	8,493	-	8,493	-	8,493
Trail maintenance	14,211	-	14,211	-	14,211
Lake maintenance	12,462	-	12,462	-	12,462
Memberships-Special Districts Pool	914	-	914	-	914
Treasurer fees	1,097	10,971	12,068	-	12,068
Debt Service:					
Principal	-	225,000	225,000	(225,000)	-
Interest expense	-	1,392,000	1,392,000	1,092,807	2,484,807
Trustee fees	-	3,000	3,000	-	3,000
Depreciation	-	-	-	846,433	846,433
Total Expenditures	<u>610,977</u>	<u>1,630,971</u>	<u>2,241,948</u>	<u>1,714,240</u>	<u>3,956,188</u>
PROGRAM REVENUES					
Operating service fees	570,161	-	570,161	-	570,161
Facility fees	-	6,000	6,000	-	6,000
Total Program Revenues	<u>570,161</u>	<u>6,000</u>	<u>576,161</u>	<u>-</u>	<u>576,161</u>
Net Program Income (Expenses)	<u>(40,816)</u>	<u>(1,624,971)</u>	<u>(1,665,787)</u>	<u>(1,714,240)</u>	<u>(3,380,027)</u>
GENERAL REVENUES					
Property taxes	72,982	729,819	802,801	-	802,801
Specific ownership taxes	6,715	67,146	73,861	-	73,861
Interest income	422	14,553	14,975	-	14,975
Miscellaneous income	8,929	-	8,929	-	8,929
Total General Revenues	<u>89,048</u>	<u>811,518</u>	<u>900,566</u>	<u>-</u>	<u>900,566</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	48,232	(813,453)	(765,221)	(1,714,240)	(2,479,461)
OTHER FINANCING SOURCES (USES)					
Draw on letter of credit	-	794,346	794,346	(794,346)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>794,346</u>	<u>794,346</u>	<u>(794,346)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	48,232	(19,107)	29,125	(29,125)	
CHANGE IN NET POSITION				(2,479,461)	(2,479,461)
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	478,999	1,977,629	2,456,628	(21,006,954)	(18,550,326)
END OF YEAR	<u>\$ 527,231</u>	<u>\$ 1,958,522</u>	<u>\$ 2,485,753</u>	<u>\$(23,515,540)</u>	<u>\$(21,029,787)</u>

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

Reata South 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	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 72,982	\$ 72,982	\$ -
Specific ownership taxes	5,279	6,715	1,436
Operating service fees	566,500	570,161	3,661
Interest income	1,000	422	(578)
Miscellaneous income	-	8,929	8,929
	<u>645,761</u>	<u>659,209</u>	<u>13,448</u>
EXPENDITURES			
Accounting/Audit	24,720	27,427	(2,707)
Legal	48,000	34,424	13,576
Security Personnel	255,544	232,786	22,758
Facilities Manager	63,139	64,057	(918)
Security equip/supplies	11,000	21,250	(10,250)
Vehicle purchase / registration	8,000	7,465	535
Fuel/repair/equip	16,000	12,896	3,104
Building maintenance	4,420	4,878	(458)
Landscape maintenance	20,000	17,222	2,778
Irrigation water	5,000	4,806	194
Insurance	23,500	21,875	1,625
Office expense	1,000	932	68
Utilities - electric	9,000	9,876	(876)
Utilities - telephone	1,800	1,668	132
Gate repair/maintenance	1,000	11,243	(10,243)
Monument maintenance	2,500	817	1,683
Miscellaneous	3,211	1,781	1,430
Pest control	50,000	48,002	1,998
Landscape improvements	15,000	2,635	12,365
Weed control	21,000	19,198	1,802
Streets-sweeping & maintenance	13,200	13,362	(162)
Streets-snow removal	8,000	15,200	(7,200)
Streets-pavement maintenance reserve	20,000	-	20,000
Storm Drain Maintenance	8,500	8,493	7
Trail maintenance	17,600	14,211	3,389
Lake maintenance	12,500	12,462	38
Memberships-Special Districts Pool	1,030	914	116
Treasurer fees	1,097	1,097	-
Contingency	268,650	-	268,650
Emergency reserve	19,340	-	19,340
	<u>953,751</u>	<u>610,977</u>	<u>342,774</u>
NET CHANGE IN FUND BALANCE	(307,990)	48,232	356,222
FUND BALANCE:			
BEGINNING OF YEAR	<u>397,990</u>	<u>478,999</u>	<u>81,009</u>
END OF YEAR	<u>\$ 90,000</u>	<u>\$ 527,231</u>	<u>\$ 437,231</u>

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

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

1: Summary of significant accounting policies:

The accounting policies of the Reata South Metropolitan District (the “District”), located in Douglas County, Colorado, (the “County”), conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Reporting entity

Definition of Reporting Entity

The District was organized in November 2005, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to finance and construct certain public infrastructure improvements that benefit the citizens of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

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

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

The District employs security personnel and a facility manager; all other functions are contracted.

Basis of Presentation

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

Reata South Metropolitan District

Notes to Financial Statements

December 31, 2016

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

The District reports the following governmental funds:

General fund – is the general operating fund of the District. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

Debt service fund – accounts for the accumulation of resources for the repayment of long-term debt.

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

Budgetary Accounting

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

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

Deposits and investments

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

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

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

Fair value of financial instruments

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

Estimates

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

Interfund balances

Activities between funds are representative of lending/borrowing arrangements outstanding at the end of the year are reported as "internal balances" on the Statement of Net Position. Transactions that transfer revenue/expenditures between funds are reported as "transfer to/from other funds" on the Statement of Activities. These amounts are eliminated in the applicable statements.

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 taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally 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 in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

Capital assets

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

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	30 years
Landscaping	10 years
Vehicles, equipment and computer equipment	5 years

Deferred inflows of resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of items that qualify for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

Fund balance

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

Nonspendable Fund Balance

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

The nonspendable fund balance in the General Fund in the amount of \$9,665 represents prepaid expenditures.

Restricted Fund Balance

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

The restricted fund balance in the in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$19,976 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$1,958,522 is restricted for the payment of the debt service costs associated with the Series 2007 Bonds (see Note 4).

Committed Fund Balance

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

Assigned Fund Balance

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

The assigned fund balance in the General Fund represents the amount of \$90,000 appropriated for use in the budget for the year ending December 31, 2016.

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

Net position

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

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

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

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

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

2. Cash and investments:

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

Statement of Net Position:	
Cash and investments	\$ 474,102
Cash and investments - Restricted	<u>1,952,843</u>
Total	<u>\$ 2,426,945</u>

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

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

Deposits with financial institutions	\$ 160,436
Investments - CSAFE	<u>2,266,509</u>
	<u>\$ 2,426,945</u>

Deposits:

Custodial Credit Risk

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

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

Investments:

Investment Valuation

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; 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.

Credit Risk

The District’s investment policy requires that the District follow state statutes for investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

Custodial and Concentration of Credit Risk

None of the District’s investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

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

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Surplus Asset Asset Fund Trust (CSAFE)	Weighted average under 60 days	\$ 2,266,509

CSAFE

The local government investment pool Colorado Surplus Asset Fund Trust (“CSAFE”), is rated AAAM by Standard and Poor’s and the maturity is weighted average under 60 days. CSAFE 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 custodian agreements. 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 custodians’ internal records identify the investments owned by CSAFE. At December 31, 2016, the District had \$2,266,509 invested in CSAFE.

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

3. Capital assets:

Capital asset activity for the year ended December 31, 2016, was as follows:

<u>Governmental Type Activities:</u>	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>
<i>Capital assets not being depreciated:</i>				
Land and buildings	\$ 2,620	\$ -	\$ -	\$ 2,620
Total capital assets not being depreciated	<u>2,620</u>	<u>-</u>	<u>-</u>	<u>2,620</u>
<i>Capital assets being depreciated:</i>				
Streets	25,300,874	-	-	25,300,874
Equipment	50,426	-	-	50,426
Computer Equipment	7,460	-	-	7,460
Landscape Improvement	16,568	-	-	16,568
Vehicles	12,085	-	-	12,085
Total capital assets being depreciated	<u>25,387,413</u>	<u>-</u>	<u>-</u>	<u>25,387,413</u>
<i>Accumulated Depreciation:</i>				
Streets	(5,481,944)	(843,362)	-	(6,325,306)
Equipment	(40,346)	(2,240)	-	(42,586)
Computer Equipment	(7,460)	-	-	(7,460)
Landscape Improvement	(8,263)	(830)	-	(9,093)
Vehicles	(12,085)	-	-	(12,085)
Total accumulated depreciation	<u>(5,550,098)</u>	<u>(846,432)</u>	<u>-</u>	<u>(6,396,530)</u>
Net capital assets being depreciated	<u>19,837,315</u>	<u>(846,432)</u>	<u>-</u>	<u>18,990,883</u>
Government type assets, net	<u>\$ 19,839,935</u>	<u>\$ (846,432)</u>	<u>\$ -</u>	<u>\$ 18,993,503</u>

The District retains the right to maintain ownership in certain facilities and/or retain responsibility for operations and maintenance.

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

4. Long-term debt:

The District issued bonds to provide funds for the acquiring, designing, constructing, relocating, installing, and completing water, sanitation, street, and parks and recreation improvements and facilities.

Changes in long - term debt obligations for the year ended December 31, 2016, are as follows:

	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>	<u>Current</u> <u>Portion</u>
General Obligation Bonds	\$ 19,200,000	\$ -	\$ 225,000	\$ 18,975,000	\$ 240,000
Funding agreement	12,266,051	-	-	12,266,051	-
Developer guaranty agreement	1,354,190	794,346	-	2,148,536	-
Total	<u>\$ 32,820,241</u>	<u>\$ 794,346</u>	<u>\$ 225,000</u>	<u>\$ 33,389,587</u>	<u>\$ 240,000</u>

General Obligation Bonds Series 2007A

On August 23, 2007, the District issued \$19,350,000 of Limited Tax General Obligation Bonds, Series 2007A (the "Series 2007A Bonds"), at an interest rate of 7.250% and maturing on December 1, 2037. The Series 2007A Bonds are subject to mandatory sinking fund redemption requirements beginning December 1, 2015. Interest on the Bonds is payable semi-annually on June 1 and December 1 beginning December 1, 2007. The Series 2007A Bonds are subject to redemption prior to maturity at the option of the District, in whole or in part and if in part, by lot, on any date on or after December 1, 2017, at par plus interest accrued to the redemption date.

Proceeds of the Bonds were used for the purposes of paying a portion of the costs of acquiring, designing, constructing, relocating, installing, and completing water, sanitation, street, and parks and recreation improvements and facilities; providing funds for payment of interest; funding of a Debt Service Reserve Fund; and paying costs of issuance of the Series 2007A Bonds.

The Series 2007A Bonds are to be paid from a Limited Mill Levy, not to exceed 50.000 mills, Specific Ownership Taxes, Facility Fees, and the District is required to impose a mill levy of at least 40 mills until the Surplus Fund Exceeds \$2,000,000 or the ratio of outstanding debt to assessed valuation is 60% or less. A partial Debt Service Guaranty has been provided by the Developer in the form of an irrevocable standby letter of credit in the current amount of \$3,250,000. In 2014, the Letter of credit was cashed out and is held by the trustee to be used by the District for shortfalls in debt service payments.

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

During 2016, \$794,346 of the funds held by the trustee were used for debt service payments. The repayment of this draw to the developer is subordinate to the Series 2007A Bonds.

Accrued interest at December 31, 2016 on the Series 2007A bonds was \$114,642, and on the letter of credit was \$172,914.

The District’s annual debt service requirements to maturity for the Series 2007A Bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 240,000	\$ 1,375,688	\$ 1,615,688
2018	285,000	1,358,288	1,643,288
2019	310,000	1,337,625	1,647,625
2020	360,000	1,315,150	1,675,150
2021	390,000	1,289,050	1,679,050
2022 - 2026	2,715,000	5,948,988	8,663,988
2027 - 2031	4,320,000	4,748,750	9,068,750
2032 - 2036	6,650,000	2,869,188	9,519,188
2037	<u>3,705,000</u>	<u>134,306</u>	<u>3,839,306</u>
	<u>\$ 18,975,000</u>	<u>\$ 20,377,033</u>	<u>\$ 39,352,033</u>

Funding Agreement - Developer

The District entered into a Funding Agreement with Colorado Golf Club, LLC, (the “Developer”), whereby the Developer agreed to loan the District one or more sums of money not to exceed \$29,000,000 for capital expenses and certain operating expenses. The advances bear simple interest at a rate of 8% per annum from the date any advance is made. During 2011, Betts Lake, LLC, in its capacity as the sole member of CGC Real Estate, LLC and CGC Real Estate II, LLC, is the successor in interest to the Developer’s interest in the Funding Agreement. The Funding Agreement is subordinate to the General Obligation Bonds. The collection of any revenues to repay the agreement is at the Board’s discretion and is subject to annual appropriation by the Board in any given year. The Funding Agreement terminates on Dec. 1, 2036, at which time all terms and provisions of this Agreement, including the provisions related to repayment shall terminate completely and unconditionally. The principal balance as of December 31, 2016 was \$12,266,051 with accrued interest of \$8,831,900.

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

5. **Debt Authorization:**

In 2005, the electors of the District authorized the issuance of indebtedness of \$135,450,000 for public improvements. As of December 31, 2016, the amount of debt authorized by the District's electorate but unissued was \$112,850,000. The District has not budgeted to issue any debt in 2017.

6. **Agreements:**

Purchase and Sale Agreement

On September 23, 2014 the District entered into a Purchase and Sale Agreement with Betts Lake, LLC (the "buyer"). The Buyer agrees to purchase approximately 80 acres. The purchase will be on a lot by lot basis consisting of Village Lots and Custom Lots. Once the buyer sells a Village lot to a third-party buyer, the buyer will pay the District 5% of the gross price if the lot has residential improvements or 5% of the contract price if the third-party purchaser has contracted for improvements. The District will receive 20% of the gross sales price for the Custom Lots. On March 23, 2016, the Purchase and Sale Agreement lapsed and was not extended, due to an internal issue for the developer which had to be resolved in order to proceed with the Agreement. The District Board, however, agreed to renew the Agreement once the issue was resolved to the Board's satisfaction. This Agreement was subsequently renewed on March 7, 2017. The Buyer has not yet received necessary Douglas County rezoning and other approvals but is continuing to work toward obtaining such approvals.

Facility fees

Facility Fees were imposed and collected by the District in the amount of \$2,000 per residential lot and \$.50 per square foot of constructed commercial building. The fees are due and payable pursuant to the Fee Resolution as follows: i) residential lots purchased prior to January 1, 2007 are due on the date that the water connection permit for a building improvement is issued, ii) residential lots purchased after January 1, 2007 are due on the date of conveyance of such lots, and iii) commercial building fees are due on the date of issuance of water connection permit. The fees are paid or remitted to the District to be applied to fund the costs of construction, completion, maintenance or replacement of the Facilities, including the payment of the Bonds used for financing of Facilities. In 2016, the District received \$6,000 in Facility Fee Revenue.

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

7. **Risk Management:**

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

The District pays annual premiums to the Pool for auto, public officials’ liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. No distributions were made during the year ended December 31, 2016.

8. **Tax, spending and debt limitations:**

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

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

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

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

Reata South Metropolitan District

Notes to Financial Statements
December 31, 2016

On November 1, 2005, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

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

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

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

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

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

SUPPLEMENTAL INFORMATION

Reata South Metropolitan District

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

For the Year Ended December 31, 2016

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Facility fees	\$ -	\$ 6,000	\$ 6,000
Property taxes	729,819	729,819	-
Specific ownership taxes	52,768	67,146	14,378
Interest income	<u>2,500</u>	<u>14,553</u>	<u>12,053</u>
Total Revenues	<u>785,087</u>	<u>817,518</u>	<u>32,431</u>
EXPENDITURES			
Treasurer fees	10,947	10,971	(24)
Principal	225,000	225,000	-
Interest expense	1,392,000	1,392,000	-
Trustee fees	<u>10,000</u>	<u>3,000</u>	<u>7,000</u>
Total Expenditures	<u>1,637,947</u>	<u>1,630,971</u>	<u>6,976</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(852,860)	(813,453)	39,407
OTHER FINANCING SOURCES (USES)			
Draw on letter of credit	<u>839,067</u>	<u>794,346</u>	<u>(44,721)</u>
Total Other Financing Sources (Uses)	<u>839,067</u>	<u>794,346</u>	<u>(44,721)</u>
NET CHANGE IN FUND BALANCE			
	(13,793)	(19,107)	(5,314)
FUND BALANCE:			
BEGINNING OF YEAR	<u>1,948,793</u>	<u>1,977,629</u>	<u>28,836</u>
END OF YEAR	<u>\$ 1,935,000</u>	<u>\$ 1,958,522</u>	<u>\$ 23,522</u>

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

Reata South Metropolitan District

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2016

<u>Year Ended December 31,</u>	Prior Year Assessed Valuation for Current Year Property Tax Levy	<u>Mills Levied</u>		<u>Total Property Tax</u>		Percent Collected to Levied
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2007	\$ 4,434,170	45.000	0.000	\$ 199,538	\$ 199,537	100.00%
2008	\$ 8,303,900	10.000	40.000	\$ 415,195	\$ 418,548	100.81%
2009	\$ 20,390,300	10.000	40.000	\$ 1,019,515	\$ 890,706	87.37%
2010	\$ 26,229,470	10.000	40.000	\$ 1,311,474	\$ 1,311,471	100.00%
2011	\$ 26,792,560	10.000	40.000	\$ 1,339,628	\$ 1,339,855	100.02%
2012	\$ 15,678,560	5.000	50.000	\$ 862,321	\$ 848,895	98.44%
2013	\$ 16,021,120	5.000	50.000	\$ 881,162	\$ 875,070	99.31%
2014	\$ 14,280,955	5.000	50.000	\$ 785,453	\$ 771,288	98.20%
2015	\$ 14,237,820	5.000	50.000	\$ 783,080	\$ 783,080	100.00%
2016	\$ 14,596,380	5.000	50.000	\$ 802,801	\$ 802,801	100.00%
Estimated for year ending December 31, 2017	\$ 14,827,420	5.000	50.000	\$ 815,508		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.