

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
Jefferson County, Colorado

FINANCIAL STATEMENTS
December 31, 2016



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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mountain's Edge Metropolitan District
Jefferson County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mountain's Edge Metropolitan District as of and for the year December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mountain's Edge Metropolitan District, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mountain's Edge Metropolitan District's basic financial statements. The Supplementary Information and the Other Information, as listed on the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Duggio & Associates, P.C.

April 27, 2017

BASIC FINANCIAL STATEMENTS

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 9,448
Cash and investments - Restricted	450,201
Property taxes receivable	70,863
Receivable from County Treasurer	429
Other receivables	7,088
Construction in progress	<u>4,171,517</u>
Total assets	<u>4,709,546</u>
LIABILITIES	
Accounts payable	39,693
Accrued interest payable	20,372
Noncurrent liabilities	
Due in more than one year	<u>5,529,313</u>
Total liabilities	<u>5,589,378</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	<u>70,863</u>
Total deferred inflows of resources	<u>70,863</u>
NET POSITION	
Restricted for:	
Emergency reserves	1,000
Debt service	27,335
Unrestricted	<u>(979,030)</u>
Total net position	<u><u>\$ (950,695)</u></u>

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

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:					
Government activities:					
General government	\$ 67,290	\$ -	\$ -	\$ -	\$ (67,290)
Interest and related costs on long-term debt	929,083	-	-	-	(929,083)
	<u>\$ 996,373</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(996,373)</u>
General revenues:					
Property taxes					65,064
Specific ownership taxes					5,220
Other income					269
Net investment income					7
Total general revenues					<u>70,560</u>
Change in net position					(925,813)
Net position - Beginning					(24,882)
Net position - Ending					<u>\$ (950,695)</u>

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

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 9,448	\$ -	\$ -	\$ 9,448
Cash and investments - Restricted	1,000	449,201	-	450,201
Deferred property tax receivable	20,959	49,904	-	70,863
Receivable from County Treasurer	187	242	-	429
Other receivables	7,088	-	-	7,088
TOTAL ASSETS	\$ 38,682	\$ 499,347	\$ -	\$ 538,029
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 30,680	\$ -	\$ 9,013	\$ 39,693
Total liabilities	30,680	-	9,013	39,693
DEFERRED INFLOWS OF RESOURCES				
Property tax revenue	20,959	49,904	-	70,863
Total deferred inflows or resources	20,959	49,904	-	70,863
FUND BALANCES				
Restricted for:				
Emergency reserves	1,000	-	-	1,000
Debt service	-	449,443	-	449,443
Unassigned	(13,957)	-	(9,013)	(22,970)
Total fund balances	(12,957)	449,443	(9,013)	427,473
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 38,682	\$ 499,347	\$ -	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,171,517
Long-term liabilities, including bonds payable and interest payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds payable	(3,216,000)
Developer advances	(2,313,313)
Accrued interest payable	(20,372)
Net position of governmental activities	\$ (950,695)

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

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 28,628	\$ 36,436	\$ -	\$ 65,064
Specific ownership taxes	2,275	2,945	-	5,220
Net investment income	-	7	-	7
Other income	269	-	-	269
Total revenues	<u>31,172</u>	<u>39,388</u>	<u>-</u>	<u>70,560</u>
EXPENDITURES				
Current				
Accounting	10,179	-	-	10,179
County Treasurer's fees	426	549	-	975
Insurance	2,738	-	-	2,738
District management	11,855	-	-	11,855
Dues and membership	315	-	-	315
Election	720	-	-	720
Landscape maintenance	13,789	-	-	13,789
Legal	10,313	-	-	10,313
Trash removal	708	-	-	708
Utilities	6,654	-	-	6,654
Miscellaneous	580	-	-	580
Debt service				
Interest expense - Bonds	-	18,438	-	18,438
Capital Projects				
Capital outlay	-	-	4,171,517	4,171,517
Repay developer advance	-	-	2,550,417	2,550,417
Bond issue costs	-	-	245,416	245,416
Engineering costs	-	-	9,013	9,013
Total expenditures	<u>58,277</u>	<u>18,987</u>	<u>6,976,363</u>	<u>7,053,627</u>
OTHER FINANCING SOURCES (USES)				
Transfers	-	420,167	(420,167)	-
Developer advance	20,011	-	4,171,517	4,191,528
Bond proceeds Series 2016 A	-	-	2,655,000	2,655,000
Bond proceeds Series 2016 B	-	-	561,000	561,000
Total other financing sources (uses)	<u>20,011</u>	<u>420,167</u>	<u>6,967,350</u>	<u>7,407,528</u>
NET CHANGE IN FUND BALANCES	(7,094)	440,568	(9,013)	424,461
FUND BALANCES - BEGINNING OF YEAR	(5,863)	8,875	-	3,012
FUND BALANCES - END OF YEAR	<u>\$ (12,957)</u>	<u>\$ 449,443</u>	<u>\$ (9,013)</u>	<u>\$ 427,473</u>

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

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

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

Net change in fund balances - Total governmental funds	\$ 424,461
<p>Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.</p>	
Capital outlay	4,171,517
<p>Long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Bond issuance	(3,216,000)
Developer advances	(4,191,528)
Repayment of Developer Advances	1,948,717
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Bond interest - Change in liability	(20,372)
Developer interest - Change in liability	(42,608)
Changes in net position of governmental activities	\$ (925,813)

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

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Property taxes	\$ 28,415	\$ 28,628	\$ 213
Specific ownership taxes	1,990	2,275	285
Other income	-	269	269
Total revenues	<u>30,405</u>	<u>31,172</u>	<u>767</u>
EXPENDITURES			
Current			
Accounting	6,000	10,179	(4,179)
County Treasurer's fees	430	426	4
Insurance	2,700	2,738	(38)
District management	6,000	11,855	(5,855)
Dues and membership	600	315	285
Election	10,000	720	9,280
Landscape maintenance	8,000	13,789	(5,789)
Drainage maintenance	5,000	-	5,000
Trash removal	5,000	708	4,292
Legal	15,000	10,313	4,687
Utilities	3,000	6,654	(3,654)
Miscellaneous	1,500	580	920
Contingency	2,770	-	2,770
Total expenditures	<u>66,000</u>	<u>58,277</u>	<u>7,723</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(35,595)</u>	<u>(27,105)</u>	<u>8,490</u>
OTHER FINANCING SOURCES (USES)			
Developer advance	37,295	20,011	(17,284)
Total other financing sources (uses)	<u>37,295</u>	<u>20,011</u>	<u>(17,284)</u>
NET CHANGE IN FUND BALANCE	1,700	(7,094)	(8,794)
FUND BALANCES - BEGINNING OF YEAR	300	(5,863)	(6,163)
FUND BALANCES - END OF YEAR	<u>\$ 2,000</u>	<u>\$ (12,957)</u>	<u>\$ (14,957)</u>

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

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 – DEFINITION OF REPORTING ENTITY

Mountain's Edge Metropolitan District (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for Jefferson County on December 9, 2013, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located entirely within the boundaries of the Southwest Metropolitan Water and Sanitation District in Jefferson County, Colorado. The District was established to provide water, storm sewer and sanitary sewer, streets and traffic safety protection, mosquito control and other powers.

The District was originally organized under the name Reserve at the Meadows Metropolitan District. The District changed its name to Mountain's Edge Metropolitan District, effective April 7, 2016, pursuant to the recorded Order Granting Petition for Name Change. Agreements executed under the name "Reserve at the Meadows Metropolitan District" are considered to be the same as those executed under Mountain's Edge Metropolitan District.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the sum of assets and deferred outflows and the sum of liabilities and deferred inflows is reported as net position.

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds, notes and developer advances are recorded as a reduction in liabilities.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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

The District has amended its annual budget for the year ended December 31, 2016.

Pooled Cash and Investments

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

Investments are carried at fair value.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets, which include property and infrastructure assets (e.g. detention ponds and similar items), are reported in the applicable governmental 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one item that qualifies for reporting in this category. Accordingly, the item, *property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amounts become available.

Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Assigned fund balance* – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's practice to use the most restrictive classification first.

Deficits

The General Fund and the Capital Projects Fund reported a deficit in the fund financial statement as of December 31, 2016. The deficits will be eliminated with the receipt of funds advanced by the Developer in 2017.

NOTE 3 – CASH AND INVESTMENTS

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

Statement of net assets:

Cash and investments	\$ 9,448
Cash and investments - Restricted	<u>450,201</u>
Total cash and investments	<u><u>\$ 459,649</u></u>

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

Deposits with financial institutions	\$ 19,913
Investments	<u>439,736</u>
Total cash and investments	<u><u>\$ 459,649</u></u>

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

At December 31, 2016, the District's cash deposits had a bank balance and a carrying balance of \$19,913.

Investments

The District has adopted a formal investment policy that follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- . Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- * Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (Fidelity Treasury Fund Class III); 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.

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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

Investment	Maturity	Fair Value
Fidelity Treasury Fund Class III	Weighted average under 60 days	\$ 439,736
		<u>\$ 439,736</u>

Fidelity Investments

The debt service money that was included in the trust accounts at UMB was invested in the Fidelity Treasury Fund Class III. This portfolio is a money market mutual fund which invests in U.S. Government Securities, which are fully guaranteed as to principal and interest by the United States, with maturities of 38 days or less and repurchase agreements collateralized by U.S. Government Securities. The Fund is rated AAA-mf by Moodys and AAAM by S&P.

NOTE 4 – CAPITAL ASSETS

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

	Balance at		Balance at	
	December 31, 2015	Increases	Decreases	December 31, 2016
Governmental activities				
Construction in progress	\$ -	\$4,171,517	\$ -	\$ 4,171,517
Total capital assets	<u>\$ -</u>	<u>\$4,171,517</u>	<u>\$ -</u>	<u>\$ 4,171,517</u>

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 5 – LONG-TERM OBLIGATIONS

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

	<u>Balance at December 31, 2015</u>	<u>New Issues and Additions</u>	<u>Refundings/ Retirements</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds - Series 2016A	\$ -	\$ 2,655,000	\$ -	\$ 2,655,000	\$ -
Subordinate General Obligation Limited Tax Bonds - Series 2016B	-	561,000	-	561,000	-
Developer advance - capital	-	4,171,517	1,948,717	2,222,800	-
Developer advance - O&M	27,436	20,011	-	47,447	-
Developer advance - interest on capital	-	641,161	601,700	39,461	-
Developer advance - interest on O&M	458	3,147	-	3,605	-
	<u>\$ 27,894</u>	<u>\$ 8,051,836</u>	<u>\$ 2,550,417</u>	<u>\$ 5,529,313</u>	<u>\$ -</u>

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

General Obligation Bonds

\$2,655,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2016A (Series 2016A Bonds), dated October 11, 2016, with interest of 5.0% per annum, payable semi-annually on June 1 and December 1, beginning on December 1, 2016. The Series 2016A Bonds mature December 1, 2046. The Series 2016A Bonds are subject to mandatory sinking fund redemption prior to maturity commencing on December 1, 2019. The Series 2016A Bonds are also subject to optional redemption prior to maturity, at the option of the District, on December 1, 2021, or on any date thereafter upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount so redeemed as follows:

Date of Redemption	Redemption Premium
December 1, 2021 to November 30, 2022	3.00%
December 1, 2022 to November 30, 2023	2.00%
December 1, 2023 to December 14, 2024	1.00%
December 1, 2024 and thereafter	0.00%

The Series 2016A Bonds are secured by and payable from the following sources, net of any costs of Collection: (i) the Senior Required Mill Levy; (ii) Capital Fees, if any; (iii) the portion of the Specific Ownership Tax which is collected as a result of imposition of the Senior Required Mill Levy; and (iv) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Senior Pledged Revenue (as defined in the Indenture of Trust.) The Series 2016A Bonds are also secured by amounts on deposit in the Senior Reserve Fund and amounts, if any, accumulated in the Senior Surplus Fund (as defined in the Indenture of Trust.)

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

The Series 2016A Bonds have a required reserve fund of \$203,500.

\$561,000 Subordinate General Obligation Limited Tax Bonds, Series 2016B (Series 2016B Bonds), dated October 11, 2016, with interest of 7.375% payable annually from Subordinate Pledged Revenue on December 15, commencing on December 15, 2016. The Series 2016B Bonds are structured as cash flow bonds meaning that there are no scheduled payments of interest or principal prior to the final maturity. The Series 2016B Bonds mature December 15, 2046. The Series 2016B Bonds are subject to mandatory redemption provisions. The Series 2016B Bonds are also subject to optional redemption prior to maturity, at the option of the District, on December 15, 2021, or on any date thereafter upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount so redeemed as follows:

Date of Redemption	Redemption Premium
December 15, 2021 to December 14, 2022	3.00%
December 15, 2022 to December 14, 2023	2.00%
December 15, 2023 to December 14, 2024	1.00%
December 14, 2024 and thereafter	0.00%

The Series 2016B Bonds are secured by and payable from the following sources, net of any costs of Collection: (i) the Subordinate Required Mill Levy; (ii) the Subordinate Capital Fee Revenue, if any; (iii) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Subordinate Required Mill Levy; (iv) the amounts, if any, in the Senior Surplus Fund after the termination of such fund pursuant to the Senior Indenture; and (v) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Subordinate Pledged Revenue (as defined in the Subordinate Indenture.)

No principal or interest payments will be made on the Series 2016B Bonds before the Senior Surplus Fund has reached the maximum amount of \$265,500.

Proceeds from the sale of the Series 2016A Bonds and Series 2016B Bonds were used for the purposes of (i) funding and reimbursing a portion of the costs of certain public infrastructure; (ii) paying the costs of issuance of the Series 2016A Bonds and Series 2016B Bonds and; (iii) with respect to the Series 2016A Bonds only, (a) funding the Senior Reserve Fund and (b) funding a portion of interest to accrue on the Series 2016A Bonds.

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

The District's long-term bond obligations will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 132,750	\$ 132,750
2018	-	132,750	132,750
2019	5,000	132,750	137,750
2020	30,000	132,500	162,500
2021	30,000	131,000	161,000
2022-2026	205,000	629,000	834,000
2027-2031	300,000	568,750	868,750
2032-2036	440,000	480,500	920,500
2037-2041	605,000	354,500	959,500
2042-2046	1,040,000	181,500	1,221,500
	<u>\$ 2,655,000</u>	<u>\$ 2,876,000</u>	<u>\$ 5,531,000</u>

Authorized Debt

On November 5, 2013, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$36,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<u>Authorized November 5, 2013 Election</u>	<u>Authorization Used for Series 2016A Bonds</u>	<u>Authorization Used for Series 2016B Bonds</u>	<u>Authorized But Unissued</u>
Street improvements	\$ 4,000,000	\$ 1,040,495	\$ 219,856	\$ 2,739,649
Water	4,000,000	383,382	81,008	3,535,610
Storm or Sanitary Sewer	4,000,000	1,231,123	260,136	2,508,741
Traffic and safety	4,000,000	-	-	4,000,000
Mosquito control	4,000,000	-	-	4,000,000
Operations and maintenance	4,000,000	-	-	4,000,000
Debt refunding	8,000,000	-	-	8,000,000
Intergovernmental Agreements	4,000,000	-	-	4,000,000
	<u>\$ 36,000,000</u>	<u>\$ 2,655,000</u>	<u>\$ 561,000</u>	<u>\$ 32,784,000</u>

Pursuant to the Service Plan, the District is permitted to issue bond indebtedness of up to \$4,000,000 for property within the initial District boundaries.

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

NOTE 6 – NET POSITION

The District has net position consisting of two components - restricted and unrestricted.

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

	Governmental Activites
Restricted net position:	
Emergency reserves	\$ 1,000
Debt service	27,335
	\$ 28,335

The District has a deficit in unrestricted net position. The deficit is a result of the District being responsible for the repayment of bonds issued for public improvements.

NOTE 7 – RELATED PARTY

The Developer of the property which constitutes the District is Century Communities Inc. and Reserve at the Meadows, LLC. The majority of the members of the Board of Directors are employees, owners or are otherwise associated with Century Communities Inc. and with the Developer and may have conflicts of interest in dealing with the District.

Funding and Reimbursement Agreement

Operations Funding

The District and Reserve at the Meadows, LLC (the Developer) entered into the 2013-2014 Operation Funding Agreement dated December 10, 2013 (the 2013-2014 OFA). Pursuant to the 2013-2014 OFA, the Developer agreed to advance funds to the District for payment of operation and maintenance expenses for fiscal years 2013 and 2014 up to \$60,000. The District has agreed to reimburse the Developer for funds advanced under the 2013-2014 OFA along with interest of eight percent (8.0%) per annum.

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 7 – RELATED PARTY (CONTINUED)

The District and the Developer entered into the 2015 Operation Funding Agreement on December 4, 2014, with an effective date of December 1, 2015 (the 2015 OFA), whereby the Developer agreed to provide funding for operation and maintenance expenses of the District for fiscal year 2015 up to \$40,000. The District agreed to reimburse the Developer for such advances along with interest at eight percent (8.0%) per annum. Reimbursement payments made under the 2015 OFA are applied first to the 2013-2014 OFA interest then principal, then to the 2015 OFA interest then principal.

The District and the Developer entered into the 2016 Operation Funding Agreement on November 13, 2015, with an effective date of January 1, 2016 (the 2016 OFA), whereby the Developer agreed to provide funding for operation and maintenance expenses of the District for fiscal year 2016 up to \$37,295. The District agreed to reimburse the Developer for such advances along with interest at eight percent (8.0%) per annum. Reimbursement payments made under the 2016 OFA are applied first to the to the 2013-2014 OFA interest then principal, then to the 2015 OFA interest then principal, then to the 2016 OFA interest then to principal.

The District and the Developer entered into a 2017 Operation Funding Agreement dated November 18, 2016, with an effective date of January 1, 2017 (the 2017 OFA). Pursuant to the 2017 OFA, the Developer agreed to provide funding for operation and maintenance expenses for the District for fiscal year 2017 up to \$48,000. The District has agreed to reimburse the Developer for such advances along with interest at eight percent (8.0%). Payments made under the 2017 OFA are first applied to the 2013-2014 OFA interest then principal, then to the 2015 OFA interest then principal, then to the 2016 OFA interest then principal, then to the 2017 OFA interest then principal.

As of December 31, 2016, the amounts outstanding under the 2013-2014 OFA, the 2015 OFA and the 2016 OFA totaled \$51,052, including principal of \$47,447 and interest of \$3,605.

Facilities Funding and Acquisition

The District and the Developer entered into a Facilities Funding and Acquisition Agreement dated December 10, 2013, as amended (the FFAA). Pursuant to the FFAA, the Developer agreed to advance funds to the District for the construction of public improvements for fiscal years 2013 to 2014 up to \$1,800,000. The District has agreed to reimburse the Developer for funds advanced under the FFAA, together with interest thereon at the rate of eight percent (8.0%) per annum. Payments made under the FFAA are applied first to interest and then to principal.

On December 4, 2014, the District and the Developer amended the FFAA to extend the period of advances through 2018. The FFAA was further amended on September 26, 2016 to increase the Developer's commitment to provide funding up to \$5,000,000. The FFAA was again amended on November 18, 2016 to increase to Developer's commitment to provide funding up to \$8,000,000.

As of December 31, 2016, the outstanding advances under the FFAA total \$2,262,261, including principal of \$2,222,800 and interest of \$39,461.

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 8 – DISTRICT AGREEMENTS

Intergovernmental Agreements

Service Plan IGA

On December 19, 2014, the District and Southwest Metropolitan Water and Sanitation District (SMWSD) entered into an Intergovernmental Agreement (the Service Plan IGA) whereby the parties acknowledge that the District has the limited authority to finance, acquire and construct certain potable water and sanitary sewer facilities for ultimate dedication and conveyance to SMWSD. Upon the dedication and acceptance by SMWSD of such facilities, the District no longer has any authority to finance, construct and/or acquire potable water and sanitary sewer service facilities. Further, the District acknowledges that the property within its boundaries is subject to the rules and regulations of SMWSD relative to provisions of water and sanitary sewer services and the construction of facilities for the same.

Underdrain Agreement

The District and SMWSD entered into an Underdrain Agreement dated April 17, 2015 (the Underdrain Agreement) whereby the parties agreed to allow the District to install, operate, maintain and repair a District owned underdrain in the same trench with SMWSD's sanitary sewer line(s) to serve property within the District.

NOTE 9 – INTERFUND TRANSFERS

The transfer from the Capital Projects Fund to the Debt Service Fund was the result of the bond offering proceeds, designated to Debt Service.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

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

MOUNTAIN'S EDGE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 11 – TAX, SPENDING AND DEBT LIMITATIONS

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

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

On November 5, 2013, a majority of the District's electors authorized the District to collect and spend or retain in a reserve the full amount of all currently levied taxes and fees from the District annually, without regard to any limitations under TABOR.

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.

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

SUPPLEMENTARY INFORMATION

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Budgets		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 36,664	\$ 36,664	\$ 36,436	\$ (228)
Specific ownership taxes	2,570	2,570	2,945	375
Net investment income	-	-	7	7
Total revenues	<u>39,234</u>	<u>39,234</u>	<u>39,388</u>	<u>154</u>
EXPENDITURES				
Debt service				
County Treasurer's fees	550	550	549	1
Interest expense - Bonds	-	149,450	18,438	131,012
Total expenditures	<u>550</u>	<u>150,000</u>	<u>18,987</u>	<u>131,013</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	420,167	420,167	-
Total other financing sources (uses)	<u>-</u>	<u>420,167</u>	<u>420,167</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	38,684	309,401	440,568	131,167
FUND BALANCES - BEGINNING OF YEAR	<u>8,871</u>	<u>8,871</u>	<u>8,875</u>	<u>4</u>
FUND BALANCES - END OF YEAR	<u>\$ 47,555</u>	<u>\$ 318,272</u>	<u>\$ 449,443</u>	<u>\$ 131,171</u>

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Budgets		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Capital outlay	-	4,171,517	4,171,517	-
Repay developer advance	-	5,162,900	2,550,417	2,612,483
Bond issue costs	-	245,416	245,416	-
Engineering costs	-	-	9,013	(9,013)
Total expenditures	<u>-</u>	<u>9,579,833</u>	<u>6,976,363</u>	<u>2,603,470</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(9,579,833)</u>	<u>(6,976,363)</u>	<u>2,603,470</u>
OTHER FINANCING SOURCES (USES)				
Developer advance	-	6,784,000	4,171,517	(2,612,483)
Bond proceeds Series 2016 A	4,000,000	2,655,000	2,655,000	-
Bond proceeds Series 2016 B	-	561,000	561,000	-
Transfers from other fund	-	-	-	-
Transfers to other fund	-	(420,167)	(420,167)	-
Total other financing sources (uses)	<u>4,000,000</u>	<u>9,579,833</u>	<u>6,967,350</u>	<u>(2,612,483)</u>
NET CHANGE IN FUND BALANCES	4,000,000	-	(9,013)	(9,013)
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 4,000,000</u>	<u>\$ -</u>	<u>\$ (9,013)</u>	<u>\$ (9,013)</u>

OTHER INFORMATION

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2016**

**\$2,655,000 General Obligation (Limited Tax
Convertible to Unlimited Tax) Bonds**

Bonds and Interest Maturing in the Year Ending December 31,	Series 2016A Interest 5.0% Dated October 11, 2016 Interest Payable June 1 and December 1 Principal Payable December 1		
	Principal	Interest	Total
2017	\$ -	\$ 132,750	\$ 132,750
2018	-	132,750	132,750
2019	5,000	132,750	137,750
2020	30,000	132,500	162,500
2021	30,000	131,000	161,000
2022	35,000	129,500	164,500
2023	35,000	127,750	162,750
2024	40,000	126,000	166,000
2025	45,000	124,000	169,000
2026	50,000	121,750	171,750
2027	50,000	119,250	169,250
2028	55,000	116,750	171,750
2029	60,000	114,000	174,000
2030	65,000	111,000	176,000
2031	70,000	107,750	177,750
2032	75,000	104,250	179,250
2033	80,000	100,500	180,500
2034	90,000	96,500	186,500
2035	95,000	92,000	187,000
2036	100,000	87,250	187,250
2037	105,000	82,250	187,250
2038	115,000	77,000	192,000
2039	120,000	71,250	191,250
2040	130,000	65,250	195,250
2041	135,000	58,750	193,750
2042	150,000	52,000	202,000
2043	155,000	44,500	199,500
2044	165,000	36,750	201,750
2045	175,000	28,500	203,500
2046	395,000	19,750	414,750
	\$ 2,655,000	\$ 2,876,000	\$ 5,531,000

**MOUNTAIN'S EDGE METROPOLITAN DISTRICT
SUMMARY OF ASSESSED VALUATION, MILL LEVY AND
PROPERTY TAXES COLLECTED
December 31, 2016**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Property Taxes		Percent Collected to Levied
			Levied	Collected	
2015	\$ 208,393	71.000	\$ 14,796	\$ 14,795	99.99%
2016	\$ 916,601	71.000	\$ 65,079	\$ 65,064	99.98%
Estimated for year ending December 31,					
2017	\$ 998,073	71.000	\$ 70,863		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.