

SADDLEROCK METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2016

with

Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Saddlerock Metropolitan District
Arapahoe County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Saddlerock Metropolitan District (the "District"), Arapahoe County, Colorado, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Saddlerock Metropolitan District's 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 financial position of the governmental activities and each major fund of the Saddlerock Metropolitan District, Arapahoe County, Colorado, as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted 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 an opinion on the financial statements as a whole. The supplemental information listed in the table of contents are presented for the purpose of additional analysis and were not a required part of the financial statements. The supplemental information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Watson Coon & Associates P.C.

WATSON COON & ASSOCIATES PC

JULY 7, 2017
GREENWOOD VILLAGE, COLORADO

SADDLEROCK METROPOLITAN DISTRICT

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

	<u>General</u>	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 103,460	\$ -	\$ -	\$ 103,460	\$ -	\$ 103,460
Cash and investments - Restrict	982	248,182	59,234	308,398	-	308,398
Receivable county treasurer	1,214	4,249	-	5,463	-	5,463
Property taxes receivable	295,313	725,978	-	1,021,291	-	1,021,291
Accounts receivable - assessments	-	-	58,590	58,590	-	58,590
Prepaid expenses	7,657	-	-	7,657	-	7,657
Prepaid bond insurance	-	-	-	-	86,939	86,939
Capital assets, net of depreciation	-	-	-	-	2,344,136	2,344,136
Total Assets	<u>408,626</u>	<u>978,409</u>	<u>117,824</u>	<u>1,504,859</u>	<u>2,431,075</u>	<u>3,935,934</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding	-	-	-	-	267,995	267,995
Total Deferred Outflows of Resources	-	-	-	-	267,995	267,995
Total Assets and Deferred Outflows of Resources	<u>\$ 408,626</u>	<u>\$ 978,409</u>	<u>\$ 117,824</u>	<u>\$ 1,504,859</u>		
LIABILITIES						
Accounts payable	\$ 653	\$ -	\$ 7,235	\$ 7,888	-	7,888
Prepaid assessments	-	-	22,270	22,270	-	22,270
Accrued interest on bonds	-	-	-	-	29,095	29,095
Long-term liabilities						
Due within one year	-	-	-	-	440,000	440,000
Due in more than one year	-	-	-	-	8,226,564	8,226,564
Total Liabilities	<u>653</u>	<u>-</u>	<u>29,505</u>	<u>30,158</u>	<u>8,695,659</u>	<u>8,725,817</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>295,313</u>	<u>725,978</u>	<u>-</u>	<u>1,021,291</u>	<u>-</u>	<u>1,021,291</u>
Total Deferred Inflows of Resources	<u>295,313</u>	<u>725,978</u>	<u>-</u>	<u>1,021,291</u>	<u>-</u>	<u>1,021,291</u>
FUND BALANCE						
Nonspendable:						
Prepays	7,657	-	-	7,657	(7,657)	-
Restricted						
Emergencies	982	-	-	982	(982)	-
Debt service	-	252,431	-	252,431	(252,431)	-
Recreation center	-	-	88,319	88,319	(88,319)	-
Unassigned:	<u>104,021</u>	<u>-</u>	<u>-</u>	<u>104,021</u>	<u>(104,021)</u>	<u>-</u>
Total Fund Balances	<u>112,660</u>	<u>252,431</u>	<u>88,319</u>	<u>453,410</u>	<u>(453,410)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 408,626</u>	<u>\$ 978,409</u>	<u>\$ 117,824</u>	<u>\$ 1,504,859</u>		
NET POSITION						
Restricted for:						
Emergencies					982	982
Debt service					223,336	223,336
Recreation center					88,319	88,319
Unrestricted					<u>(5,855,816)</u>	<u>(5,855,816)</u>
Total Net Position (Deficit)					<u>\$ (5,543,179)</u>	<u>\$ (5,543,179)</u>

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

SADDLEROCK METROPOLITAN DISTRICT

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

	<u>General</u>	Debt <u>Service</u>	Special <u>Revenue</u>	<u>Total</u>	<u>Adjustments</u>	Statement of <u>Activities</u>
EXPENDITURES						
Accounting and audit	\$ 15,554	\$ -	\$ -	\$ 15,554	\$ -	\$ 15,554
Legal	-	-	97,470	97,470	-	97,470
Directors' fees	4,600	-	-	4,600	-	4,600
Insurance	7,268	-	-	7,268	-	7,268
Miscellaneous expenses	488	-	1,572	2,060	-	2,060
Treasurer's fees	3,256	11,395	-	14,651	-	14,651
Bond principal	-	430,000	-	430,000	(430,000)	-
Bond interest expense	-	362,038	-	362,038	20,669	382,707
Paying agent fees	-	200	-	200	-	200
Bond insurance	-	-	-	-	5,796	5,796
Administration	-	-	7,320	7,320	-	7,320
Management fee	-	-	18,340	18,340	-	18,340
Telephone	-	-	2,687	2,687	-	2,687
Pool maintenance repairs and supplies	-	-	72,155	72,155	-	72,155
Pool furniture	-	-	6,865	6,865	-	6,865
Holiday lights	-	-	7,170	7,170	-	7,170
Clubhouse	-	-	18,533	18,533	-	18,533
Landscape maintenance	-	-	141,981	141,981	-	141,981
Security	-	-	2,469	2,469	-	2,469
Snow removal	-	-	6,540	6,540	-	6,540
Repairs and maintenance	-	-	56,464	56,464	-	56,464
Lighting maintenance	-	-	2,010	2,010	-	2,010
Water and sewer	-	-	126,409	126,409	-	126,409
Utilities	-	-	25,605	25,605	-	25,605
Depreciation	-	-	-	-	185,018	185,018
Total Expenditures	<u>31,166</u>	<u>803,633</u>	<u>593,590</u>	<u>1,428,389</u>	<u>(218,517)</u>	<u>1,209,872</u>
PROGRAM REVENUES						
Assessments	-	-	359,738	359,738	-	359,738
Other income	-	-	103,956	103,956	-	103,956
Total Program Revenues	<u>-</u>	<u>-</u>	<u>463,694</u>	<u>463,694</u>	<u>-</u>	<u>463,694</u>
Net Program Income (Expense)	<u>(31,166)</u>	<u>(803,633)</u>	<u>(129,896)</u>	<u>(964,695)</u>	<u>218,517</u>	<u>(746,178)</u>
GENERAL REVENUES						
Property taxes	216,868	759,036	-	975,904	-	975,904
Specific ownership taxes	16,628	58,197	-	74,825	-	74,825
Interest and other income	1,725	5,739	-	7,464	-	7,464
Total General Revenues	<u>235,221</u>	<u>822,972</u>	<u>-</u>	<u>1,058,193</u>	<u>-</u>	<u>1,058,193</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	204,055	19,339	(129,896)	93,498	218,517	312,015
OTHER FINANCING SOURCES (USES)						
Transfers from (to) other funds	<u>(125,000)</u>	<u>-</u>	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(125,000)</u>	<u>-</u>	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES						
	79,055	19,339	(4,896)	93,498	(93,498)	
CHANGE IN NET POSITION						
					312,015	312,015
FUND BALANCE/NET POSITION						
BEGINNING OF YEAR	<u>33,605</u>	<u>233,092</u>	<u>93,215</u>	<u>359,912</u>	<u>(6,215,106)</u>	<u>(5,855,194)</u>
END OF YEAR	<u>\$ 112,660</u>	<u>\$ 252,431</u>	<u>\$ 88,319</u>	<u>\$ 453,410</u>	<u>\$ (5,996,589)</u>	<u>\$ (5,543,179)</u>

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

SADDLEROCK METROPOLITAN DISTRICT

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

For the Year Ended December 31, 2016

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 216,901	\$ 216,868	\$ (33)
Specific ownership taxes	12,280	16,628	4,348
Interest and other income	<u>100</u>	<u>1,725</u>	<u>1,625</u>
Total Revenues	<u>229,281</u>	<u>235,221</u>	<u>5,940</u>
EXPENDITURES			
Accounting and audit	14,000	15,554	(1,554)
Directors' fees	4,800	4,600	200
Insurance	6,700	7,268	(568)
Miscellaneous expenses	500	488	12
Treasurer's fees	3,213	3,256	(43)
Contingency	20,204	-	20,204
Emergency reserve	<u>876</u>	<u>-</u>	<u>876</u>
Total Expenditures	<u>50,293</u>	<u>31,166</u>	<u>19,127</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	178,988	204,055	25,067
OTHER FINANCING SOURCES (USES)			
Transfers from (to) other funds	<u>(215,000)</u>	<u>(125,000)</u>	<u>90,000</u>
Total Other Financing Sources (Uses)	<u>(215,000)</u>	<u>(125,000)</u>	<u>90,000</u>
CHANGE IN FUND BALANCE	(36,012)	79,055	115,067
FUND BALANCE			
BEGINNING OF YEAR	<u>36,012</u>	<u>33,605</u>	<u>(2,407)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 112,660</u>	<u>\$ 112,660</u>

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

SADDLEROCK METROPOLITAN DISTRICT

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

For the Year Ended December 31, 2016

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Assessments	\$ 361,420	\$ 359,738	\$ (1,682)
Other income	<u>42,212</u>	<u>103,956</u>	<u>61,744</u>
Total Revenues	<u>403,632</u>	<u>463,694</u>	<u>60,062</u>
EXPENDITURES			
Legal	68,800	97,470	(28,670)
Administration	18,000	7,320	10,680
Management fee	18,720	18,340	380
Telephone	2,400	2,687	(287)
Pool maintenance repairs and supplies	79,900	72,155	7,745
Miscellaneous expenses	20,000	1,572	18,428
Pool furniture	10,000	6,865	3,135
Holiday lights	5,000	7,170	(2,170)
Clubhouse	19,100	18,533	567
Landscape maintenance	134,900	141,981	(7,081)
Security	5,100	2,469	2,631
Snow removal	7,000	6,540	460
Repairs and maintenance	56,000	56,464	(464)
Lighting maintenance	2,400	2,010	390
Water and sewer	116,000	126,409	(10,409)
Utilities	24,000	25,605	(1,605)
Contingency	4,734	-	4,734
Capital expansion/reserve	131,348	-	131,348
Emergency reserve	<u>17,020</u>	<u>-</u>	<u>17,020</u>
Total Expenditures	<u>740,422</u>	<u>593,590</u>	<u>146,832</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(336,790)	(129,896)	206,894
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	<u>215,000</u>	<u>125,000</u>	<u>(90,000)</u>
Total Other Financing Sources (Uses)	<u>215,000</u>	<u>125,000</u>	<u>(90,000)</u>
CHANGE IN FUND BALANCE	(121,790)	(4,896)	116,894
FUND BALANCE - BEGINNING OF YEAR	<u>121,790</u>	<u>93,215</u>	<u>(28,575)</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 88,319</u>	<u>\$ 88,319</u>

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

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2016

Note 1: Summary of Significant Accounting Policies

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

Definition of Reporting Entity

The District was organized on January 12, 1996, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized concurrently with Lost Shoe Metropolitan District (“Lost Shoe”) (collectively, the “Districts”). Each district has the power to provide streets, water, sanitation, safety controls, television relay and translator, transportation, park and recreation services and other related improvements to the users in the service area located within the districts’ boundaries. The District serves as the “Taxing District” while Lost Shoe served as the “Operating District”. The Operating District was responsible for providing the day-to-day operations and administrative management for both Districts. On August 28, 2008, Lost Shoe was dissolved. Therefore, Lost Shoe’s assets, liabilities, and fund balance were transferred to the District and the District now serves as the Operating 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.

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2016

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

Basis of Presentation

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

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement 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.

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2016

The District reports the following major governmental funds:

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

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

Special Revenue Fund – The Special Revenue Fund is used to account for the financial resources accumulated and payments made for recreation center activities.

Accounts Receivable – Commercial Site Assessments

Accounts receivable – commercial site assessments represent fees due from owners of commercial sites within the District. The fees support maintenance of common areas within the District. All amounts are deemed collectible as such fees constitute a perpetual lien against the property served.

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.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

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

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.

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2016

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

Estimates

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 item that qualifies 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.

Capital Assets

Capital assets defined by the District as park and recreation improvements are recorded at 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.

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2016

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

Land improvements	30 years
Landscape improvements	15 years

Original Issue Discount and Prepaid Debt Insurance and Loss on Refunding

Original issue discount prepaid debt insurance and loss on refunding from the Series 2010 Bonds are being amortized over the terms of the bonds using the straight-line method. Accumulated amortization of original issue discount and prepaid debt insurance and loss on refunding amounted to \$24,698, \$36,708 and \$113,014 respectively at December 31, 2016.

Long-Term Obligations

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

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.

Fund Equity

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

Nonspendable Fund Balance

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

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2016

The nonspendable fund balance in the General Fund in the amount of \$7,657 represents prepaid insurance.

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$982 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 \$252,431 is restricted for the payment of the debt service costs associated with Series 2010 Limited Tax General Obligation Refunding bonds (see Note 4).

The restricted fund balance in the Recreation Center Fund in the amount of \$88,319 is restricted for the payment of costs related to the operations of the Recreation Center.

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

Net Position

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

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

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

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

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

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2016

Note 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	\$ 103,460
Cash and investments – Restricted	<u>308,398</u>
Total	<u>\$ 411,858</u>

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

Deposits with financial institutions	\$ 13,226
Investments – COLOTRUST	<u>398,632</u>
	<u>\$ 411,858</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

Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding 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.

Custodial and Concentration of Credit Risk

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

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2016

Interest Rate Risk

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

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.

The District has the following investment as of December 31, 2016:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	\$ 398,632

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s and the maturity is weighted average under 60 days a Level 2 investment under the fair value hierarchy. The State Securities Commissioner administers and enforces all State statutes governing the Trust.. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2016, the District had \$398,632 invested in COLOTRUST.

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2016

Note 3: Capital Assets

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

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Governmental Type Activities:				
Capital assets being depreciated:				
Parks and recreation	\$ 5,339,177	\$ -	\$ -	\$ 5,339,177
Fencing	<u>86,135</u>	<u>-</u>	<u>-</u>	<u>86,135</u>
Total capital assets:	5,425,312	-	-	5,425,312
Accumulated Depreciation	<u>(2,896,158)</u>	<u>(185,018)</u>	<u>-</u>	<u>(3,081,176)</u>
Net capital assets being depreciated:	<u>\$ 2,529,154</u>	<u>\$ (185,018)</u>	<u>\$ -</u>	<u>\$ 2,344,136</u>

The Consolidated Service Plan required the District to convey the streets, water, and sanitation and storm drainage improvements to the City of Aurora for ownership and maintenance. The District retained ownership and maintained the park and recreation improvements, including landscaping, entry features, parks and trails, as well as television relay and translator facilities.

Note 4: Long Term Debt

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

\$11,250,000 Limited Tax General Obligation Refunding Bonds, Series 2010

On September 2, 2010, the District issued \$11,250,000 General Obligation Refunding Bonds Series 2011 for the purpose of refunding the District's Limited Tax General Obligation Refunding Bonds Series 2002. The bonds mature on December 1, 2031. The bonds bear interest at rates which vary from 2.0% to 4.0%, payable semiannually on each June 1 and December 1. Payments of principal and interest on the bonds are insured in accordance with the terms of a financial guaranty insurance policy. The Bonds maturing on and before December 1, 2020 are not subject to redemption prior to their maturity dates. The Bonds maturing on December 1, 2021 are subject to redemption prior to maturity at the option of the District, in whole or in part in integral multiples of \$5,000, and if in parts in such order of maturity as the District determines and by lot within maturity on December 1, 2020 and on any date thereafter, at a redemption price equal to the principal amount, plus accrued interest to the redemption date.

The Bonds maturing on December 1, 2031 are subject to mandatory sinking fund redemption by lot, beginning on December 1, 2026 and on each December 1 thereafter prior to maturity at a redemption price equal to their principal amount, plus accrued interest to the redemption date.

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2016

Proceeds from the refunding were used to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments for the District's Limited Tax General Obligation Refunding Bonds Series 2002. As a result, the bonds are considered to be defeased and the liability has been removed from the District's Statement of Net Position. This advance refunding was undertaken to reduce the total debt service payments providing a net present value savings of \$602,142.

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

	<u>Balance</u> 1/1/2016	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 12/31/2016	<u>Current</u> <u>Portion</u>
Refunding Bonds - Series 2010	\$ 9,155,000	\$ -	\$ 430,000	\$ 8,725,000	\$ 440,000
Less deferred amounts:					
Issuance discounts	<u>(62,336)</u>	<u>-</u>	<u>(3,900)</u>	<u>(58,436)</u>	<u>-</u>
Total	<u>\$ 9,092,664</u>	<u>\$ -</u>	<u>\$ 426,100</u>	<u>\$ 8,666,564</u>	<u>\$ 440,000</u>

The following is a summary of the annual long-term debt principal and interest requirements:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 440,000	\$ 349,138	\$ 789,138
2018	455,000	335,938	790,938
2019	470,000	321,719	791,719
2020	485,000	306,444	791,444
2021	500,000	290,075	790,075
2022-2026	2,805,000	1,158,725	3,963,725
2027 - 2031	<u>3,570,000</u>	<u>506,250</u>	<u>4,076,250</u>
	<u>\$ 8,725,000</u>	<u>\$ 3,268,289</u>	<u>\$ 11,993,289</u>

Debt Authorization

In 1995, the electors of the District authorized the issuance of indebtedness of \$12,113,948 in general obligation bonds. In 1997, the electors of the District authorized the issuance of \$15,720,000 in general obligation bonds, for a total of \$27,833,948 of voted authorization. As of December 31, 2016, the amount of debt authorized by the District's electorate but unissued was \$14,678,377. The District has not budgeted to issue any new debt during 2017.

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2016

Note 5: District Agreements

Intergovernmental Agreement – City of Aurora

The District and the City of Aurora have entered into an Intergovernmental Agreement as required by the City of Aurora Code and the District's Consolidated Service Plan. Under this agreement, the District must obtain the approval of the City of Aurora Council prior to; (i) any inclusion of property in or exclusion of property from the boundaries of the District, (ii) any refunding of bonds of the District which could shorten or extend the maturity of such bonds or increase the total debt service thereon (subject to certain exceptions), or (iii) consolidation with any other special district.

The District was organized concurrently with Lost Shoe. Each District had the power to provide streets, water, sanitation, safety controls, television relay and translator, transportation, park and recreation services and other related improvements to users in the service area located within the districts' boundaries. The Consolidated Service Plan required Lost Shoe to convey streets, water and sanitation and storm drainage improvements to the City of Aurora for ownership and maintenance. Lost Shoe retained ownership and maintained the park and recreation improvements, including landscaping, entry features, park and trails, as well as television relay and translator facilities until 2008, when Lost Shoe dissolved and transferred assets to the District, along with the maintenance responsibilities of these assets.

Arapahoe Park and Recreation District Intergovernmental Agreement

The District, and the Arapahoe Park and Recreation District ("Arapahoe Park") have entered into an Intergovernmental Agreement whereby Arapahoe Park agreed to reimburse annually certain operation and maintenance expenses incurred by the District with respect to trails throughout the development.

Note 6: 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.

SADDLEROCK METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2016

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

Note 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 Colorado Special Districts Property and Liability Pool (the "Pool") is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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

Note 8: Interfund and Operating Transfers

The transfer of \$125,000 from the General Fund to the Recreation Center Fund was to transfer funds for the purpose of paying operating expenses for the Recreation Center.

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

The Government 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 Statement of Governmental Fund 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 depreciated over their useful lives;
- 2) governmental funds report the repayment of bond principal as expenditures; however, these are eliminated on the Statement of Activities and reported as reductions in long-term liabilities on the Statement of Net Position; and,
- 3) 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.

SUPPLEMENTAL INFORMATION

SADDLEROCK 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 & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 759,152	\$ 759,036	\$ (116)
Specific ownership taxes	53,141	58,197	5,056
Interest and other income	<u>-</u>	<u>5,739</u>	<u>5,739</u>
 Total Revenues	 <u>812,293</u>	 <u>822,972</u>	 <u>10,679</u>
EXPENDITURES			
Bond principal	430,000	430,000	-
Bond interest expense	362,038	362,038	-
Paying agent fees	1,858	200	1,658
Treasurer's fees	<u>11,387</u>	<u>11,395</u>	<u>(8)</u>
 Total Expenditures	 <u>805,283</u>	 <u>803,633</u>	 <u>1,650</u>
 CHANGE IN FUND BALANCE	 7,010	 19,339	 12,329
FUND BALANCE			
BEGINNING OF YEAR	<u>230,516</u>	<u>233,092</u>	<u>2,576</u>
 END OF YEAR	 <u>\$ 237,526</u>	 <u>\$ 252,431</u>	 <u>\$ 14,905</u>

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

SADDLEROCK METROPOLITAN DISTRICT

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES AND PROPERTY TAXES COLLECTED

December 31, 2016

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2005	\$ 21,506,520	5.000	38.000	\$ 924,780	\$ 921,293	99.62%
2006	\$ 22,148,700	5.000	38.000	\$ 952,394	\$ 952,271	99.99%
2007	\$ 22,324,900	5.000	38.000	\$ 959,971	\$ 958,056	99.80%
2008	\$ 24,932,460	5.000	32.000	\$ 922,501	\$ 916,008	99.30%
2009	\$ 25,278,600	5.000	32.000	\$ 935,308	\$ 935,468	100.02%
2010	\$ 23,079,460	5.000	32.000	\$ 853,940	\$ 853,909	100.00%
2011	\$ 23,289,960	5.000	32.000	\$ 861,729	\$ 859,690	99.76%
2012	\$ 20,497,520	5.000	35.000	\$ 819,901	\$ 819,370	99.94%
2013	\$ 20,513,250	5.000	35.000	\$ 820,530	\$ 819,965	99.93%
2014	\$ 20,494,360	5.000	35.000	\$ 819,774	\$ 819,404	99.95%
2015	\$ 20,623,185	6.000	35.000	\$ 845,551	\$ 845,552	100.00%
2016	\$ 24,100,067	9.000	31.500	\$ 976,053	\$ 975,904	99.98%
Estimated for year ending December 31, 2017	\$ 24,609,426	12.000	29.500	\$ 1,021,291		

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.