

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1  
City of Aurora, Arapahoe County, Colorado**

**FINANCIAL STATEMENTS  
December 31, 2016**



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Certified Public Accountants and Business Consultants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Southlands Metropolitan District No. 1  
City of Aurora, Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Southlands Metropolitan District No. 1 (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express 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.

### **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 Southlands Metropolitan District No. 1, as of December 31, 2016, and the respective changes in financial position thereof, 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.

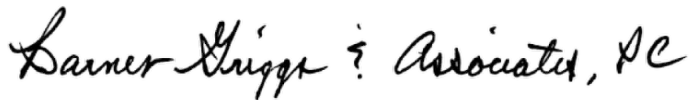
**Other Matters**

*Required Supplementary Information*

Management has omitted 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 District's basic financial statements. The supplementary information on pages 24 through 28 is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The supplementary information on pages 29 through 32 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 it.



Lakewood, Colorado  
July 10, 2017

## **BASIC FINANCIAL STATEMENTS**

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF NET POSITION**  
**December 31, 2016**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and investments	\$ 1,268,321
Cash and investments - Restricted	8,748,030
Accounts receivable	28,751
Interest receivable	2,712
General operations fee receivable	48,538
Prepaid expenses	30,964
Property taxes receivable	4,167,252
Capital assets, net	
Streets	8,442,765
Park and recreation improvements	4,376,552
Capital assets, not being depreciated	71,193
Total assets	<u>27,185,078</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Cost of refunding	<u>3,282,639</u>
Total deferred outflows of resources	<u>3,282,639</u>
<b>LIABILITIES</b>	
Accounts payable	125,788
Unearned general operations fee	54,846
Due to County	140,177
Tenant operations fee refund payable	261,580
Accrued interest payable	266,641
Noncurrent liabilities:	
Due within one year	1,365,000
Due in more than one year	54,319,671
Total liabilities	<u>56,533,703</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	<u>4,167,252</u>
Total deferred inflows of resources	<u>4,167,252</u>
<b>NET POSITION</b>	
Net investment in capital assets	(16,089,289)
Restricted for:	
Emergency reserves	15,500
Capital projects	3,718,193
Unrestricted	<u>(17,877,642)</u>
Total net position	<u><u>\$ (30,233,238)</u></u>

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

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u> <u>Revenues and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges</u> <u>for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Primary government:					
Government activities:					
General government	\$ 3,465,617	\$ 1,772,438	\$ -	\$ -	\$ (1,693,179)
Interest and related costs on long-term debt	3,138,088	-	-	-	(3,138,088)
	<u>\$ 6,603,705</u>	<u>\$ 1,772,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(4,831,267)</u>
General revenues:					
Property taxes					3,958,189
Specific ownership taxes					331,119
Interest income					30,462
Miscellaneous income					844
Total general revenues					<u>4,320,614</u>
Change in net position					(510,653)
Net position - Beginning					<u>(29,722,585)</u>
Net position - Ending					<u>\$ (30,233,238)</u>

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

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and investments	\$ 1,230,215	\$ -	\$ 38,106	\$ 1,268,321
Cash and investments - Restricted	15,500	5,028,062	3,704,468	8,748,030
Accounts receivable	28,751	-	-	28,751
Interest receivable	-	2,712	-	2,712
General operations fee receivable	48,538	-	-	48,538
Prepaid expenses	30,964	-	-	30,964
Property taxes receivable	230,040	3,937,212	-	4,167,252
<b>TOTAL ASSETS</b>	<u>\$ 1,584,008</u>	<u>\$ 8,967,986</u>	<u>\$ 3,742,574</u>	<u>\$ 14,294,568</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 101,407	\$ -	\$ 24,381	\$ 125,788
Due to County	16,811	123,366	-	140,177
Tenant operations fee refund payable	261,580	-	-	261,580
Unearned general operations fee	54,846	-	-	54,846
Total liabilities	<u>434,644</u>	<u>123,366</u>	<u>24,381</u>	<u>582,391</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property tax revenue	230,040	3,937,212	-	4,167,252
Total deferred inflows of resources	<u>230,040</u>	<u>3,937,212</u>	<u>-</u>	<u>4,167,252</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Prepaid expenses	30,964	-	-	30,964
Restricted for:				
Emergency reserves	15,500	-	-	15,500
Debt service	-	4,907,408	-	4,907,408
Capital projects	-	-	3,718,193	3,718,193
Unassigned	872,860	-	-	872,860
Total fund balances	<u>919,324</u>	<u>4,907,408</u>	<u>3,718,193</u>	<u>9,544,925</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 1,584,008</u>	<u>\$ 8,967,986</u>	<u>\$ 3,742,574</u>	

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.

Capital assets, net 12,890,510

Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported in the funds.

Bonds payable and bond premium (55,684,671)

Cost of refunding 3,282,639

Accrued interest on bonds payable (266,641)

Net position of governmental activities \$ (30,233,238)

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

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 474,697	\$ 3,483,492	\$ -	\$ 3,958,189
Specific ownership taxes	39,710	291,409	-	331,119
General operations fee	1,772,438	-	-	1,772,438
Interest income	188	30,274	-	30,462
Miscellaneous income	844	-	-	844
Total revenues	<u>2,287,877</u>	<u>3,805,175</u>	<u>-</u>	<u>6,093,052</u>
<b>EXPENDITURES</b>				
General				
Accounting	44,375	-	-	44,375
Audit	5,100	-	-	5,100
County Treasurer's fees	7,123	52,273	-	59,396
District management	38,512	-	-	38,512
Dues and membership	1,553	-	-	1,553
Election	561	-	-	561
Insurance and bonds	23,519	-	-	23,519
Legal	27,583	-	-	27,583
Miscellaneous	1,052	-	-	1,052
Traffic signal	170,035	-	-	170,035
Utility billing	5,400	-	-	5,400
Operations				
Floral	151,270	-	-	151,270
Landscape maintenance & irrigation repair	242,853	-	-	242,853
Monthly cleaning	218,153	-	-	218,153
Pest control	620	-	-	620
Property maintenance	117,741	-	-	117,741
Property management	35,111	-	-	35,111
Repairs and maintenance	115,804	-	-	115,804
Security	52,040	-	-	52,040
Signage and décor	66,148	-	-	66,148
Snow removal	425,352	-	-	425,352
Street lighting/stripping	141,506	-	-	141,506
Street/sidewalk repairs	37,510	-	-	37,510
Street sweeping	19,600	-	-	19,600
Traffic signal maintenance	757	-	-	757
Utilities	163,806	-	-	163,806
Debt service				
Bond interest	-	2,665,738	-	2,665,738
Bond principal	-	1,305,000	-	1,305,000
Paying agent fees	-	2,500	-	2,500
Loan issue costs	-	119,044	-	119,044
Capital Outlay	-	-	71,193	71,193
Total expenditures	<u>2,113,084</u>	<u>4,144,555</u>	<u>71,193</u>	<u>6,328,832</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>174,793</u>	<u>(339,380)</u>	<u>(71,193)</u>	<u>(235,780)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan issuance	-	4,250,000	-	4,250,000
Transfers to other fund	-	(3,789,386)	-	(3,789,386)
Transfer from other fund	-	-	3,789,386	3,789,386
Total other financing sources (uses)	<u>-</u>	<u>460,614</u>	<u>3,789,386</u>	<u>4,250,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	174,793	121,234	3,718,193	4,014,220
<b>FUND BALANCES - BEGINNING OF YEAR</b>	744,531	4,786,174	-	5,530,705
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 919,324</u>	<u>\$ 4,907,408</u>	<u>\$ 3,718,193</u>	<u>\$ 9,544,925</u>

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

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1  
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	\$ 4,014,220
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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.

Depreciation expense	(1,352,533)
Capital outlay	71,193

The issuance of long-term debt (e.g., bonds, receipt of Developer advances) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bond principal	1,305,000
Loan proceeds	(4,250,000)
Current year amortization of cost of refunding	(279,558)
Current year amortization of bond premium	25,521

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest on bonds - Change in liability	<u>(44,496)</u>
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Changes in net position of governmental activities	<u><u>\$ (510,653)</u></u>
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**Year Ended December 31, 2016**

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>			
Property taxes	\$ 518,004	\$ 474,697	\$ (43,307)
Specific ownership taxes	41,440	39,710	(1,730)
General operations fee	2,039,000	1,772,438	(266,562)
Interest income	-	188	188
Miscellaneous income	2,500	844	(1,656)
Total revenues	<u>2,600,944</u>	<u>2,287,877</u>	<u>(313,067)</u>
<b>EXPENDITURES</b>			
Accounting	40,000	44,375	(4,375)
Audit	5,000	5,100	(100)
Capital outlay	4,169,875	-	4,169,875
Contingency	12,080	-	12,080
County Treasurer's fees	7,770	7,123	647
District management	45,000	38,512	6,488
Dues and membership	1,500	1,553	(53)
Election	1,500	561	939
Floral	151,300	151,270	30
Insurance and bonds	25,000	23,519	1,481
Landscape maintenance & irrigation repair	170,600	242,853	(72,253)
Legal	30,000	27,583	2,417
Miscellaneous	2,000	1,052	948
Monthly cleaning	219,600	218,153	1,447
Pest control	10,000	620	9,380
Property maintenance	100,000	117,741	(17,741)
Property management	40,000	35,111	4,889
Repairs and maintenance	208,000	115,804	92,196
Security	67,000	52,040	14,960
Signage and décor	91,000	66,148	24,852
Snow removal	650,000	425,352	224,648
Street lighting/stripping	100,000	141,506	(41,506)
Street/sidewalk repairs	30,000	37,510	(7,510)
Street sweeping	20,000	19,600	400
Traffic signal	100,000	170,035	(70,035)
Traffic signal maintenance	1,500	757	743
Utilities	150,000	163,806	(13,806)
Utility billing	5,400	5,400	-
Loan interest	82,875	-	82,875
Total expenditures	<u>6,537,000</u>	<u>2,113,084</u>	<u>4,423,916</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(3,936,056)</u>	<u>174,793</u>	<u>4,110,849</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Loan issuance	4,250,000	-	(4,250,000)
Total other financing sources (uses)	<u>4,250,000</u>	<u>-</u>	<u>(4,250,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	313,944	174,793	(139,151)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	433,422	744,531	311,109
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 747,366</u>	<u>\$ 919,324</u>	<u>\$ 171,958</u>

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

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Southlands Metropolitan District No. 1 (District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized on November 18, 2002, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in the City of Aurora, Arapahoe County, Colorado. The District was established to provide financing for the design, acquisition, construction and installation of public facilities such as water, streets, traffic and safety controls, parks, open space and recreation, sewer and drainage facilities and the operations and maintenance of the 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 organizations, 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.

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.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

Separate financial statements are provided for the 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 a functional expense on the statement of activities. Expenditures for property, plant and equipment are shown as increases in assets and redemption of bonds and notes 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 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.

**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 and other financing uses level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

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

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**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 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 a deferred inflow of resources in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported 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.

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 of the District's net position.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

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. Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Streets	20 years
Park and recreation improvements	20 years

**Accounts Receivable**

In the government-wide financial statements, receivables are reported at their gross value and, when appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**Resolution Concerning the Imposition of a General Operations Fee**

On August 4, 2011, the District adopted the Resolution Concerning the Imposition of a General Operations Fee whereby the District fixed and imposed fees, rates, tolls, charges and penalties for services or facilities provided by the District. Any fee that is not paid in full within fifteen days after the scheduled due date is assessed a late fee of fifteen dollars or up to five percent per month, or a fraction thereof, not to exceed a total of twenty-five percent of the amount due. Interest accrues on any outstanding fee, exclusive of assessed late fees and interest, at the rate of eighteen percent per year.

On March 13, 2014, the District amended the above named resolution to clarify the funding of an operations reserve and capital reserve, and capital replacement costs, as well as costs associated with providing the services, in order that the public facilities may be properly provided and maintained and that the health, safety, and welfare of the District and its inhabitants may be safeguarded.

**Amortization**

**Original Issue Premium**

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

**Cost of Refunding**

In the government-wide financial statements, the deferred cost of refunding is being amortized using the interest method over the life of the new bonds. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a deferred outflow of resources.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**Deferred Inflows/Outflows of Resources**

In addition to assets, the statement of net position reports 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 government only has one item that qualifies for reporting in this category. Accordingly, the item, *cost of refunding*, is deferred and recognized as an outflow of resources in the period that the amounts become available.

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 type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are 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.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.
- *Assigned fund balance* – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above.

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

**NOTE 3 - CASH AND INVESTMENTS**

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

Statement of net position:

Cash and investments	\$ 1,268,321
Cash and investments - Restricted	<u>8,748,030</u>
	<u>\$ 10,016,351</u>

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

Deposits with financial institutions	\$ 1,283,821
Investments	<u>8,732,530</u>
	<u>\$ 10,016,351</u>

**Cash Deposits**

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.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**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 of \$1,481,475 and a carrying balance of \$1,283,821.

**Investments**

The District has not adopted a formal investment policy; however, the District 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 (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

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

<b>Investment</b>	<b>Maturity</b>	<b>Fair Value</b>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	<u>\$ 8,732,530</u>

**CSAFE**

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 4 - CAPITAL ASSETS**

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

<u>Primary Government</u>	<u>Balance December 31, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2016</u>
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 71,193		\$ 71,193
Total capital assets, not being depreciated	<u>-</u>	<u>71,193</u>	<u>-</u>	<u>71,193</u>
Capital assets, being depreciated:				
Streets	18,527,117	-	-	18,527,117
Park and recreation improvements	8,523,542	-	-	8,523,542
Total capital assets, being depreciated	<u>27,050,659</u>	<u>-</u>	<u>-</u>	<u>27,050,659</u>
Less accumulated depreciation for:				
Streets	(9,157,996)	(926,356)	-	(10,084,352)
Park and recreation improvements	(3,720,813)	(426,177)	-	(4,146,990)
Total accumulated depreciation	<u>(12,878,809)</u>	<u>(1,352,533)</u>	<u>-</u>	<u>(14,231,342)</u>
Total capital assets, being depreciated, net	<u>14,171,850</u>	<u>(1,352,533)</u>	<u>-</u>	<u>12,819,317</u>
Capital assets, net	<u>\$ 14,171,850</u>	<u>\$ (1,281,340)</u>	<u>\$ -</u>	<u>\$ 12,890,510</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	<u>\$ 1,352,533</u>
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**NOTE 5 - LONG-TERM OBLIGATIONS**

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

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
2007 G.O. Refunding Bonds	\$ 52,440,000	\$ -	\$ 1,305,000	\$ 51,135,000	\$ 1,365,000
2016 G.O. Loan	-	4,250,000	-	4,250,000	-
Unamortized bond premium	325,192	-	25,521	299,671	-
Total	<u>\$ 52,765,192</u>	<u>\$ 4,250,000</u>	<u>\$ 1,330,521</u>	<u>\$ 55,684,671</u>	<u>\$ 1,365,000</u>

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

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

**General Obligation Bonds**

**\$58,940,000 General Obligation Refunding and Improvement Bonds, Series 2007**, with interest of 4.000% to 5.000% consisting of term bonds issued in the amounts of \$8,600,000, \$3,700,000, \$2,000,000, and \$35,470,000 due December 1, 2022, 2027, 2027, and 2034. A portion of the bond proceeds were used to refund the \$35,225,000 2004 Bonds. The bonds maturing on and before December 1, 2017, are not subject to redemption prior to their respective maturity dates. The bonds maturing on and after December 1, 2022, are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 1, 2017, and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

The bonds due December 1, 2022, are subject to mandatory sinking fund redemption, in part, by lot, commencing on December 1, 2018.

The bonds due December 1, 2027, and bearing interest at 4.750% per annum also are subject to mandatory sinking fund redemption, in part, by lot, commencing on December 1, 2023, and on each December 1 thereafter prior to the maturity date of such bonds.

The bonds due December 1, 2027, and bearing interest at 5.000% per annum also are subject to mandatory sinking fund redemption, in part, by lot, commencing on December 1, 2023, and on each December 1 thereafter prior to the maturity date of such bonds.

The bonds due December 1, 2034, are also subject to mandatory sinking fund redemption, in part, by lot, commencing on December 1, 2023, and each December 1 thereafter prior to the maturity date of such bonds.

The bonds are secured by and payable from the Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: 1) the Required Mill Levy, 2) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy, and 3) any other legally available monies which the District determines to be treated as Pledged Revenue. The bonds are also secured by amounts held by the Trustee in the Reserve Fund. Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal, premium if any, and interest on the bonds as the same become due and payable and to make up any deficiencies in the Reserve Fund. For collection year 2016, the District levied 7.548 mills for the General Fund and 53.000 mills for the Debt Service Fund.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**General Obligation Loan**

On July 13, 2016, the District entered into a loan agreement with CoBiz Public Finance, Inc. (the "Lender") regarding its General Obligation Loan Series 2016 (the "Loan") in the principal amount of \$4,250,000, with an interest rate of 2.54%. The Loan matures on July 13, 2023. Interest payments on the Loan shall be due and payable semi-annually on June 1 and December 1 each year, commencing June 1, 2017. Interest not paid when due shall remain outstanding until paid and shall not compound. Principal payments on the Loan shall be due and payable on December 1 each year, commencing December 1, 2018. Principal not paid when due shall remain outstanding and shall bear interest at the default rate of 5.54%.

The Loan shall not be subject to prepayment by the District, in whole or in part, prior to July 13, 2018. The District may, at its option, prepay the Loan, in whole or part, on July 13, 2018 and on any date thereafter, with 30 days prior written notice to the Lender, at a prepayment price equal to the sum of the outstanding principal with accrued and unpaid interest to the date of prepayment, plus a prepayment premium of 1.0%.

The Loan represents first priority security interest in and to the Pledged Revenue and other collateral to secure the payment of the principal and interest when due on parity with the first priority security interest thereon of the Series 2007 Bonds (the "Bonds"). The Loan constitutes an unlimited tax general obligation of the District secured by full faith and credit of the District and neither the Loan nor the Bonds shall have any priority over each other.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,365,000	\$ 2,751,694	\$ 4,116,694
2018	1,725,000	2,643,625	4,368,625
2019	1,810,000	2,568,327	4,378,327
2020	1,965,000	2,489,410	4,454,410
2021	2,050,000	2,403,428	4,453,428
2022-2026	14,520,000	10,255,592	24,775,592
2027-2031	15,420,000	6,866,227	22,286,227
2032-2034	16,530,000	2,003,401	18,533,401
	<u>\$ 55,385,000</u>	<u>\$ 31,981,704</u>	<u>\$ 87,366,704</u>

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**Authorized Debt**

On July 16, 2007, the City Council approved an amendment to the service plan, which permits the District to impose an unlimited mill levy and to increase its debt limit to \$60,000,000. On January 11, 2016, the City Council approved a second amendment to the service plan which increases the debt issuance limitation to \$125,000,000.

In May 2002, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$113,000,000 at an interest rate not to exceed 18% per annum. On November 11, 2008, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$560,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2016, the District had authorized but unissued indebtedness in the following amount for the following purposes:

	Amount Authorized on May 1, 2002	Amount Authorized on November 11, 2008	Authorization Used			Authorized But Unissued
			Series 2004 Bonds	Series 2007 Bonds	Series 2016 Loan	
Street improvements	\$ 41,400,000	\$ 40,000,000	\$ 27,310,000	\$ 12,679,958	\$ 4,250,000	\$ 37,160,042
Sewer improvements	4,885,000	40,000,000	1,494,000	210,000	-	43,181,000
Park and recreation improvements	7,625,000	40,000,000	6,150,000	897,000	-	40,578,000
Traffic and safety protection improvements	1,995,000	40,000,000	285,000	-	-	41,710,000
Public transportation	2,505,000	40,000,000	-	-	-	42,505,000
Water improvements	4,590,000	40,000,000	1,270,000	-	-	43,320,000
Mosquito control	-	40,000,000	-	-	-	40,000,000
Fire protection	-	40,000,000	-	-	-	40,000,000
Television relay and transmission	-	40,000,000	-	-	-	40,000,000
Security services	-	40,000,000	-	-	-	40,000,000
Operations and maintenance	1,000,000	40,000,000	-	-	-	41,000,000
Intergovernmental contracts	-	40,000,000	-	-	-	40,000,000
Public improvements operations and maintenance	-	40,000,000	-	-	-	40,000,000
Debt refunding	49,000,000	40,000,000	-	8,644,042	-	80,355,958
	<u>\$ 113,000,000</u>	<u>\$ 560,000,000</u>	<u>\$ 36,509,000</u>	<u>\$ 22,431,000</u>	<u>\$ 4,250,000</u>	<u>\$ 609,810,000</u>

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

Pursuant to the Service Plan, the District is permitted to issue bond indebtedness of up to \$125,000,000.

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 three components - net investment in capital assets, restricted, and unrestricted.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016, the District had the following net investment in capital assets, calculated as follows:

	<b>Governmental Activities</b>
Net investment in capital assets:	
Capital assets, net	\$ 12,890,510
Current portion of long-term obligations	(842,505)
Noncurrent portion of long-term obligations	(33,527,186)
Portion of debt related to restricted cash and investments	<u>5,389,892</u>
	<u><u>\$ (16,089,289)</u></u>

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

Restricted net position	
Emergencies	\$ 15,500
Capital projects	<u>3,718,193</u>
Total restricted net position	<u><u>\$ 3,733,693</u></u>

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

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 7 - INTERFUND TRANSFERS**

The transfer in the amount of \$3,789,386 from the Debt Service Fund to the Capital Projects Fund was for the proceeds resulting from Series 2016 loan issuance.

**NOTE 8 - RELATED PARTY**

Four members of the Board of Directors are employees or contractors directly hired by Northwood Retail LLC. Northwood Retail LLC is the property management company for Northwood Investors. Northwood Investors owns property at Southlands under the following entities: NWSL Town Center LLC, NWSL Power Center LLC, NWSL Developer Parcel LLC, and NWSL Outparcel LLC. Northwood Retail is affiliated with Northwood Investors. These entities and their affiliates may have conflicts of interest in dealing with the District.

**NOTE 9 - AGREEMENTS**

**District IGA**

The District and Southlands Metropolitan District No. 2 (District No. 2) entered into an Intergovernmental Agreement dated June 30, 2004, and amended pursuant to a first amendment dated December 7, 2004, and second amendment dated August 24, 2007 (the District IGA), concerning the manner in which the Districts are to coordinate the financing, construction, operation and maintenance of certain Regional Improvements contemplated in the Service Plans. The District IGA sets forth the agreement of the Districts with respect to the equitable allocation of costs associated with certain regional improvements, including improvements to Aurora Parkway, Smoky Hill Road, and certain bridge widening and landscape improvements (Regional Improvements). The District IGA indicates that the District and District No. 2 (collectively, the Districts) made a determination that, because development had not yet commenced in District No. 2, the District shall undertake the construction of the Regional Improvements and it is District No. 2's intent to reimburse the District for District No. 2's equitable share of the costs associated with the Regional Improvements upon District No. 2's issuance of bonds in an amount sufficient to reimburse the District, and the Districts agree that it is appropriate to utilize all or a portion of net bond proceeds for reimbursement.

**City of Aurora IGA**

On October 30, 2014, the District entered into a Traffic Signal Reimbursement Agreement with the City of Aurora ("City") wherein the City approved the assignment and released Southlands Colorado, LLC from its obligations related to the traffic signals (Orchard Signal and Southlands Parkway Signal). The Orchard Signal has been operational since 2008. However, there is an outstanding balance of \$89,112 which has been assigned to the District. The City agrees to contract for and manage the design and construction of the Southlands Parkway Signal, which costs are estimated at \$290,000. Pursuant to the Agreement, the District agrees to reimburse the City for the costs of the installation of the Traffic Signals in four annual payments, \$100,000 from 2015 through 2017 and an estimated final payment of \$124,932 in 2018. Payment shall be made no later than the 15<sup>th</sup> day of May of each year. The total reimbursement amount shall include simple interest at the rate of 5% per year, beginning January 1, 2015. The total interest

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 9 - AGREEMENTS (CONTINUED)**

to be paid will be added to the 2018 payment amount. In the event the cost to install the Traffic Signals is more or less than the amount estimated, the amount reimbursable to the City will be adjusted accordingly. During, 2016, the District utilized available funding and made a final payment to the City.

**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 coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

**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.

In May 2002, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitation 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.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 11 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)**

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**

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 3,801,292	\$ 3,583,050	\$ 3,483,492	\$ (99,558)
Specific ownership taxes	304,103	294,800	291,409	(3,391)
Interest income	6,000	25,000	30,274	5,274
Total revenues	<u>4,111,395</u>	<u>3,902,850</u>	<u>3,805,175</u>	<u>(97,675)</u>
<b>EXPENDITURES</b>				
Bond interest	2,665,738	2,665,738	2,665,738	-
Bond principal	1,305,000	1,305,000	1,305,000	-
Contingency	4,743	4,891	-	4,891
Loan issue costs	-	128,125	119,044	9,081
County Treasurer's fees	57,019	53,746	52,273	1,473
Paying agent fees	2,500	2,500	2,500	-
Total expenditures	<u>4,035,000</u>	<u>4,160,000</u>	<u>4,144,555</u>	<u>15,445</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>76,395</u>	<u>(257,150)</u>	<u>(339,380)</u>	<u>(82,230)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan issuance	-	4,250,000	4,250,000	-
Transfers to other fund	-	(3,789,386)	(3,789,386)	-
Transfer from other fund	143,425	-	-	-
Total other financing sources (uses)	<u>143,425</u>	<u>460,614</u>	<u>460,614</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	219,820	203,464	121,234	(82,230)
<b>FUND BALANCES -</b>				
<b>BEGINNING OF YEAR</b>	4,761,360	4,786,174	4,786,174	-
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 4,981,180</u>	<u>\$ 4,989,638</u>	<u>\$ 4,907,408</u>	<u>\$ (82,230)</u>

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Total revenues	\$ -	\$ -	\$ -	\$ -
<b>EXPENDITURES</b>				
Capital - Sidewalk renovation	-	300,000	71,193	228,807
Total expenditures	-	300,000	71,193	228,807
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	(300,000)	(71,193)	228,807
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other fund	-	3,789,386	3,789,386	-
Total other financing sources (uses)	-	3,789,386	3,789,386	-
<b>NET CHANGE IN FUND BALANCES</b>	-	3,489,386	3,718,193	228,807
<b>FUND BALANCES - BEGINNING OF YEAR</b>	-	-	-	-
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 3,489,386</u>	<u>\$ 3,718,193</u>	<u>\$ 228,807</u>

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**SCHEDULE OF OUTSTANDING BONDED DEBT SERVICE**  
**REQUIREMENTS TO MATURITY**  
**December 31, 2016**

**\$58,940,000 General Obligation**  
**Bonds, Series 2007**  
**Dated July 27, 2007**  
**Interest at 4.000%-5.000%**  
**Payable June 1 and December 1**  
**Principal Due December 1**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,365,000	\$ 2,602,363	\$ 3,967,363
2018	1,510,000	2,535,675	4,045,675
2019	1,580,000	2,465,838	4,045,838
2020	1,730,000	2,392,763	4,122,763
2021	1,810,000	2,312,750	4,122,750
2022	1,970,000	2,229,038	4,199,038
2023	2,060,000	2,137,925	4,197,925
2024	2,245,000	2,033,925	4,278,925
2025	2,360,000	1,920,513	4,280,513
2026	2,555,000	1,801,288	4,356,288
2027	2,685,000	1,672,138	4,357,138
2028	2,905,000	1,536,413	4,441,413
2029	3,055,000	1,383,900	4,438,900
2030	3,300,000	1,223,513	4,523,513
2031	3,475,000	1,050,263	4,525,263
2032	3,745,000	867,825	4,612,825
2033	3,940,000	671,213	4,611,213
2034	8,845,000	464,363	9,309,363
	<u>\$ 51,135,000</u>	<u>\$ 31,301,706</u>	<u>\$ 82,436,706</u>

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1  
SCHEDULE OF OUTSTANDING BONDED DEBT SERVICE  
REQUIREMENTS TO MATURITY  
December 31, 2016**

**\$4,250,000 General Obligation  
Loan, Series 2016  
Dated July 13, 2016  
Interest 2.540%  
Payable June 1 and December 1  
Principal Due December 1**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 149,331	\$ 149,331
2018	215,000	107,950	322,950
2019	230,000	102,489	332,489
2020	235,000	96,647	331,647
2021	240,000	90,678	330,678
2022	245,000	84,582	329,582
2023	3,085,000	48,321	3,133,321
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
2028	-	-	-
2029	-	-	-
2030	-	-	-
2031	-	-	-
2032	-	-	-
2033	-	-	-
2034	-	-	-
	<u>\$ 4,250,000</u>	<u>\$ 679,998</u>	<u>\$ 4,929,998</u>

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1  
SCHEDULE OF OUTSTANDING BONDED DEBT SERVICE  
REQUIREMENTS TO MATURITY  
December 31, 2016**

<u>Year</u>	<u>Totals</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,365,000	\$ 2,751,694	\$ 4,116,694
2018	1,725,000	2,643,625	4,368,625
2019	1,810,000	2,568,327	4,378,327
2020	1,965,000	2,489,410	4,454,410
2021	2,050,000	2,403,428	4,453,428
2022	2,215,000	2,313,620	4,528,620
2023	5,145,000	2,186,246	7,331,246
2024	2,245,000	2,033,925	4,278,925
2025	2,360,000	1,920,513	4,280,513
2026	2,555,000	1,801,288	4,356,288
2027	2,685,000	1,672,138	4,357,138
2028	2,905,000	1,536,413	4,441,413
2029	3,055,000	1,383,900	4,438,900
2030	3,300,000	1,223,513	4,523,513
2031	3,475,000	1,050,263	4,525,263
2032	3,745,000	867,825	4,612,825
2033	3,940,000	671,213	4,611,213
2034	8,845,000	464,363	9,309,363
	<u>\$ 55,385,000</u>	<u>\$ 31,981,704</u>	<u>\$ 87,366,704</u>

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1  
SUMMARY OF ASSESSED VALUATION, MILL LEVY  
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>Total Mills Levied</u>			<u>Total Property Taxes</u>		<u>Percent Collected to Levied</u>
		<u>General Oper- ations</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>		
2012	\$ 70,300,170 (a)	4.961	52.500	\$ 4,023,202	\$ 4,034,122	100.27%	
2013	\$ 69,829,470 (b)	4.190	53.500	\$ 4,015,014	\$ 3,719,378	92.64%	
2014	\$ 62,253,640 (c)	4.314	62.034	\$ 4,103,561	\$ 4,058,128	98.89%	
2015	\$ 61,508,754 (d)	6.348	60.000	\$ 4,062,298	\$ 4,033,456	99.29%	
2016	\$ 71,722,499 (e)	7.548	53.000	\$ 4,319,296	\$ 3,958,189 *	91.64%	
Estimated for year ending December 31, 2017	\$ 67,882,968 (f)	3.548	58.000	\$ 4,167,252			

**NOTE:**

Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessment.

\* Abatements during 2016 totaling \$248,520 reduced the total percentage collected to levied to 91.64%.

- (a) - Certified Assessed Value of \$3,289,020 is for Arapahoe County debt only.
- (b) - Certified Assessed Value of \$3,209,390 is for Arapahoe County debt only.
- (c) - Certified Assessed Value of \$3,033,760 is for Arapahoe County debt only.
- (d) - Certified Assessed Value of \$2,943,457 is for Arapahoe County debt only.
- (e) - Certified Assessed Value of \$3,094,513 is for Arapahoe County debt only.
- (f) - Certified Assessed Value of \$3,046,494 is for Arapahoe County debt only.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**ASSESSED VALUATION OF CLASSES OF PROPERTY OF THE DISTRICT**  
**December 31, 2016**  
**(Unaudited)**

<u>Class</u>	<u>Total Assessed Valuation</u>	<u>Percent of Total Assessed Valuation</u>
Commercial	\$ 60,526,903	89.16%
Vacant	393,217	0.58%
Personal	5,987,618	8.82%
State assessed	975,230	1.44%
	<u>\$ 67,882,968</u>	<u>100.00%</u>

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1  
TAXPAYERS IN THE DISTRICT FOR 2015  
December 31, 2016  
(Unaudited)**

<u>Taxpayer Name</u>	<u>2016 Assessed Valuation</u>	<u>Percent of Total Assessed Valuation (1)</u>
NWSL TOWN CENTER LLC	\$ 19,455,521	28.66%
WAL-MART REAL ESTATE BUSINESS	5,410,705	7.97%
NWSL POWER CENTER LLC	4,479,630	6.60%
SAM'S CLUB REAL ESTATE	3,546,746	5.22%
LOWES HOME IMPROVEMENT WAREHOUSE	3,031,698	4.47%
J.C. PENNEY PROPERTIES INC	2,863,313	4.22%
QWEST CORPORATION	886,390	1.31%
AMERICAN MULTI - CINEMA	588,811	0.87%
HEALTH IMAGES AT SOUTHLANDS	243,393	0.36%
PUBLIC SERVICE COLORADO OF COLORADO	88,340	0.13%
	<u>\$ 40,594,547</u>	<u>59.80%</u>

(1) Based on a 2016 certified assessed valuation of \$67,882,968.

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1**  
**ESTIMATED OVERLAPPING GENERAL OBLIGATION DEBT**  
**December 31, 2016**  
**(Unaudited)**

<u>Entity</u>	<u>2016 Assessed Valuation</u>	<u>Outstanding General Obligation Debt</u>	<u>Outstanding General Obligation Debt Attributed to the District</u>	
			<u>Percent</u>	<u>Debt</u>
City of Aurora	\$ 3,658,945,379	N/A	1.86%	N/A
Cherry Creek School District #5	\$ 5,242,050,000	\$ 462,860,000	1.29%	\$ 5,993,898
				<u>\$ 5,993,898</u>