

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2016

with

Independent Auditors' Report



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Independent Auditor's Report

Board of Directors

Whispering Pines Metropolitan District No.1

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Economic Dependency

The District has not yet established a revenue base sufficient to pay its operational expenditures. As discussed in Note 7, the District is dependent upon the Developer of the District's service area to provide funds for such expenditures.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Whispering Pines Metropolitan District No.1 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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the 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 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 to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
August 28, 2017

Whispering Pines Metropolitan District No. 1

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments - restricted	\$ 80,659	\$ 393,675	\$ 172,218	\$ 646,552	\$ -	\$ 646,552
Receivable - County Treasurer	67	227	-	294	-	294
Property taxes receivable	44,839	152,453	-	197,292	-	197,292
Accounts receivable - developer	15,194	-	1,549,748	1,564,942	(1,564,942)	-
Accounts receivable - other	-	-	51,418	51,418	-	51,418
Prepaid expenses	2,013	-	-	2,013	-	2,013
Capital assets not being depreciated	-	-	-	-	15,177,043	15,177,043
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 142,772</u>	<u>\$ 546,355</u>	<u>\$ 1,773,384</u>	<u>\$ 2,462,511</u>	<u>13,612,101</u>	<u>16,074,612</u>
LIABILITIES						
Accounts payable	\$ 97,933	\$ -	\$ 1,192,704	\$ 1,290,637	-	1,290,637
Retainage payable	-	-	417,088	417,088	-	417,088
ARI Payable	-	843	-	843	-	843
Accrued interest and non use fee	-	-	-	-	71,498	71,498
Long-term liabilities:						
Due in more than one year	-	-	-	-	17,779,375	17,779,375
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>97,933</u>	<u>843</u>	<u>1,609,792</u>	<u>1,708,568</u>	<u>17,850,873</u>	<u>19,559,441</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	44,839	152,453	-	197,292	-	197,292
	<u>44,839</u>	<u>152,453</u>	<u>-</u>	<u>197,292</u>	<u>-</u>	<u>197,292</u>
Total Deferred Inflows of Resources	<u>44,839</u>	<u>152,453</u>	<u>-</u>	<u>197,292</u>	<u>-</u>	<u>197,292</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Nonspendable:						
Prepays	2,013	-	-	2,013	(2,013)	-
Restricted:						
Emergencies	3,588	-	-	3,588	(3,588)	-
Debt service	-	393,059	-	393,059	(393,059)	-
Capital projects	-	-	163,592	163,592	(163,592)	-
	<u>-</u>	<u>-</u>	<u>163,592</u>	<u>163,592</u>	<u>(163,592)</u>	<u>-</u>
Unassigned	(5,601)	-	-	(5,601)	5,601	-
	<u>(5,601)</u>	<u>-</u>	<u>-</u>	<u>(5,601)</u>	<u>5,601</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>393,059</u>	<u>163,592</u>	<u>556,651</u>	<u>(556,651)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 142,772</u>	<u>\$ 546,355</u>	<u>\$ 1,773,384</u>	<u>\$ 2,462,511</u>		
Net Position:						
Restricted for:						
Emergencies					3,588	3,588
Debt service					321,561	321,561
Capital projects					163,592	163,592
Unrestricted					(4,170,862)	(4,170,862)
					<u>(4,170,862)</u>	<u>(4,170,862)</u>
Total Net Position					<u>\$ (3,682,121)</u>	<u>\$ (3,682,121)</u>

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

Whispering Pines Metropolitan District No. 1

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 8,386	\$ -	\$ 11,876	\$ 20,262	\$ (11,876)	\$ 8,386
Insurance	2,844	-	-	2,844	-	2,844
Legal	9,685	-	17,301	26,986	(17,301)	9,685
Administration	14,214	-	-	14,214	-	14,214
Miscellaneous expenses	556	-	5,850	6,406	-	6,406
Snow removal	3,170	-	-	3,170	-	3,170
Utilities	10,722	-	-	10,722	-	10,722
Paying agent fees	-	13,651	-	13,651	-	13,651
Planning and engineering	-	-	119,400	119,400	(119,400)	-
Streets	-	-	858,685	858,685	(858,685)	-
Erosion control	-	-	207,343	207,343	(207,343)	-
Water & sewer	-	-	938,870	938,870	(938,870)	-
Park and recreation	-	-	2,274,497	2,274,497	(2,274,497)	-
Construction management - regional improvements	-	-	258,294	258,294	(258,294)	-
Development supervision	-	-	53,700	53,700	(53,700)	-
Treasurer's fees	181	614	-	795	-	795
Regional mill levy	-	843	-	843	-	843
Note interest expense	-	60,774	-	60,774	8,249	69,023
Non-use fee	-	30,662	-	30,662	-	30,662
Subordinate debt interest	-	-	-	-	298,675	298,675
Developer advances - principal	-	-	1,679,818	1,679,818	(1,679,818)	-
Developer advances - interest	-	-	954,036	954,036	(183,657)	770,379
Total Expenditures	<u>49,758</u>	<u>106,544</u>	<u>7,379,670</u>	<u>7,535,972</u>	<u>(6,296,517)</u>	<u>1,239,455</u>
PROGRAM REVENUES						
System development fees	-	340,000	-	340,000	-	340,000
Total Program Revenues	<u>-</u>	<u>340,000</u>	<u>-</u>	<u>340,000</u>	<u>-</u>	<u>340,000</u>
Net Program Income (Expenses)	(49,758)	233,456	(7,379,670)	(7,195,972)	6,296,517	(899,455)
GENERAL REVENUES						
Property taxes	11,913	39,707	-	51,620	-	51,620
Specific ownership taxes	913	3,105	-	4,018	-	4,018
Property taxes - ARI	-	794	-	794	-	794
Interest income	134	509	22	665	-	665
Total General Revenues	<u>12,960</u>	<u>44,115</u>	<u>22</u>	<u>57,097</u>	<u>-</u>	<u>57,097</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(36,798)	277,571	(7,379,648)	(7,138,875)	6,296,517	(842,358)
OTHER FINANCING SOURCES (USES)						
Note proceeds	-	-	2,201,198	2,201,198	(2,201,198)	-
Developer advances	36,491	-	39,025	75,516	(75,516)	-
Developer advances - regional improvements	-	-	4,848,563	4,848,563	(4,848,563)	-
Total Other Financing Sources (Uses)	<u>36,491</u>	<u>-</u>	<u>7,088,786</u>	<u>7,125,277</u>	<u>(7,125,277)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES						
	(307)	277,571	(290,862)	(13,598)	13,598	
CHANGE IN NET POSITION						
					(842,358)	(842,358)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	307	115,488	454,454	570,249	(3,410,012)	(2,839,763)
END OF YEAR	<u>\$ -</u>	<u>\$ 393,059</u>	<u>\$ 163,592</u>	<u>\$ 556,651</u>	<u>\$ (4,238,772)</u>	<u>\$ (3,682,121)</u>

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

Whispering Pines Metropolitan District No. 1

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	\$ 11,912	\$ 11,913	\$ 1
Specific ownership taxes	953	913	(40)
Interest income	<u>-</u>	<u>134</u>	<u>134</u>
Total Revenues	<u>12,865</u>	<u>12,960</u>	<u>95</u>
EXPENDITURES			
Accounting and audit	3,000	8,386	(5,386)
Election expense	1,500	-	1,500
Insurance	6,000	2,844	3,156
Legal	15,000	9,685	5,315
Administration	15,600	14,214	1,386
Landscape and pool	6,000	-	6,000
Miscellaneous expenses	-	556	(556)
Snow removal	2,000	3,170	(1,170)
Utilities	2,000	10,722	(8,722)
Treasurer's fees	179	181	(2)
Contingency	12,704	-	12,704
Emergency reserve	<u>1,533</u>	<u>-</u>	<u>1,533</u>
Total Expenditures	<u>65,516</u>	<u>49,758</u>	<u>15,758</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(52,651)	(36,798)	15,853
OTHER FINANCING SOURCES (USES)			
Developer advances	<u>52,651</u>	<u>36,491</u>	<u>(16,160)</u>
Total Other Financing Sources (Uses)	<u>52,651</u>	<u>36,491</u>	<u>(16,160)</u>
NET CHANGE IN FUND BALANCE	-	(307)	(307)
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>307</u>	<u>307</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of Whispering Pines Metropolitan District No. 1 (the “District”), located in Arapahoe County, 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 in 2005, as a quasi-municipal organization established under the State of Colorado Special District Act. The District’s service area is located entirely within the City of Aurora (“City”). The District was established to finance the construction and acquisition of arterial roadways, major storm drainage facilities, traffic safety protection, potable water systems, sewer systems, irrigation systems, and recreation facilities that benefit the citizens of the District. Upon completion, the District will dedicate these facilities to the City or other appropriate jurisdiction for maintenance and operation except for park and recreation facilities which the District will maintain. When the District satisfies the terms of its outstanding indebtedness and contractual obligation, the City may require the District to begin dissolution proceedings. The District's primary revenues are property taxes and developer advances. The District is governed by an elected Board of Directors.

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

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

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

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

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.

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

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.

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

As a general rule, the effect of interfund activity has been eliminated from the statements of net assets.

Budgetary Accounting

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

Assets, Liabilities 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.

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

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 does not have any items that qualify for reporting under this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one 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.

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.

Capital Assets

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

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable, using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. The District had no depreciation expense in 2016.

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.

The nonspendable fund balance in the General Fund in the amount of \$2,013 represents prepaid expenditures.

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

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 \$3,588 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 \$393,059 is restricted for the payment of the debt service costs associated with the District's 2014 Notes ("see Note 4").

The restricted fund balance in the Capital Projects Fund in the amount of \$163,592 is restricted for the payment of the costs for capital improvements within the District.

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows 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.

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2016

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.

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 – Restricted	\$ <u>646,552</u>
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Cash and investments as of December 31, 2016 consist of the following:

Deposits with financial institutions	\$ 185,915
Investments – Fidelity Investments Money Market	
Government Portfolio – Class III	<u>460,637</u>
	\$ <u>646,552</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 does not have a formal policy for deposits. None of the District’s deposits were exposed to custodial credit risk.

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

Investments

Investment Valuation

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

Fidelity Investments Money Market Government Portfolio – Class III is not measured at fair value and is therefore not categorized.

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.

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

Fidelity Investments Money Market Government Portfolio – Class III

The District held investments at year end in the Fidelity Investments Money Market Government Portfolio – Class III Fund. This portfolio is a money market fund with each share equal in value to \$1.00. The fund is AAAM rated and invests exclusively in short-term U.S. government securities and repurchase agreements collateralized by U.S. government securities. The average maturity of the underlying securities is 90 days or less. As of December 31, 2016, the District had \$460,637 invested in this fund.

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

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			Balance
<u>Governmental Type Activities:</u>	<u>Restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2016</u>
<u>Capital assets not being depreciated:</u>				
Construction in Progress	\$ 10,437,077	\$ 4,739,966	\$ -	\$ 15,177,043
Total capital assets not being depreciated	<u>10,437,077</u>	<u>4,739,966</u>	<u>-</u>	<u>15,177,043</u>
Government type assets, net	<u>\$ 10,437,077</u>	<u>\$ 4,739,966</u>	<u>\$ -</u>	<u>\$ 15,177,043</u>

The beginning balance of construction in progress was restated to correct an error. The District will dedicate all of the Public Improvements to the City or other appropriate jurisdiction other than park and recreation improvements. The District will maintain the park and recreation improvements.

Note 4: Long Term Debt

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

Limited Tax General Obligation Note Series 2014A and 2014B

On December 12, 2014, the District entered into two Loan Agreements (“2014A Note” and “2014B Note”, or the “2014 Notes”) with Vectra Bank Colorado, National Association and signed and delivered two promissory notes. The 2014 A Note is for an amount not to exceed \$10,000,000 and the 2014B Note is for an amount not to exceed \$5,000,000. The 2014 Notes bear interest at a rate equal to the Bank Qualified Tax-Exempt Rate as determined on the date of the advance and is payable semi-annually on June 1 and December 1 commencing on June 1, 2015. The interest rate as of December 31, 2016 was 4.5% per annum. The District will pay to the Bank a nonrefundable annual fee of .3% of the Unfunded Portion as of December 1 of each year. Principal payments are due annually on December 1st, commencing on December 1, 2018, and thereafter on each December 1st until the maturity date of December 1, 2044 on which date any outstanding principal balance on the loan shall be due in full. The 2014 Notes are not subject to prepayment within the first two years after the closing date, and two years after the Rate Reset Date defined as December 1, 2019 and each five year anniversary from that date up to the maturity date of the loan. The 2014 Notes are subject to prepayment on the 2nd anniversary of the closing date or any Rate Reset Date upon payment of principal of par plus 1% of the outstanding balance. After the 3rd anniversary of the Closing Date or any Rate Reset Date the District may prepay the 2014 Notes without penalty upon payment of principal plus accrued interest until the next Rate Reset Date.

The 2014 Notes are secured by Pledged Revenue including property taxes generated from the Require Mill Levy of 50 mills, specific ownership taxes and development fees.

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

An initial advance under the 2014 A Note was made under the agreement for \$500,000 which was used to pay the cost of issuance along with funding capitalized interest. Additional advances will be made under the 2014 Notes no more often than quarterly and at an amount more than \$250,000 based upon a calculation of projected revenue. If on December 1, 2019 the maximum of the 2014 Notes has not been reached the District must notify the Bank of its election to either surrender any rights to any future advances or request a final advance in the amount of which combined with the prior advances cannot exceed the maximum amount of the Notes. If the District elects to request a final advance, the funds will be held in an escrow account, and will bear interest at the Bank Qualified Rate.

Metro District Improvement Agreement

On December 9, 2014 the District entered into a Metro District Improvement Agreement (“MDIA”) with The Ryland Group, Inc. now known as CalAtlantic Homes (“CalAtlantic”), Shea Homes limited Partnership (“Shea”) and Tri Pointe Homes, Inc. (“Tri Pointe”) whereby the District has agreed to construct certain District Improvements and CalAtlantic, Shea and Tri Pointe have agreed to fund a Draw Reserve Fund of \$2,000,000 each into an escrow account, and to advance funds necessary to complete construction of the District Improvements, in the gross amount of one third each of the Construction Budget subject to reimbursement of their respective advances by the District. The District agreed to reimburse CalAtlantic, Shea and Tri Pointe from proceeds from the 2014 Notes equally each time an advance is made under the 2014 Notes up to the total amount advanced by each party. The District appointed CalAtlantic to act as the construction manager and will be paid an amount equal to 4% of the amount of each draw. During 2016, CalAtlantic, Shea and Tri Pointe advanced additional funds of \$1,601,541, \$1,705,339 and \$1,590,398 respectively, under this agreement.

Metro District Improvements Draw Reserve Fund Escrow Agreement

On December 9, 2014 the District entered into a Metro District Improvements Draw Reserve Fund Escrow Agreement with CalAtlantic, Shea, Tri Pointe and Land Title Guarantee Company (“Escrow Holder”) whereby in the event that CalAtlantic, Shea or Tri Pointe fail to fund within 20 days of the draw request its one third portion under the MDIA, the District will be entitled to draw out of the escrow the unpaid portion of the draw request including the construction manager fee with a two business day notice. The party that failed to fund its’ one third portion shall be obligated to replenish the draw reserve fund within five business days thereafter and any unpaid amounts shall accrue interest at 18% per annum until paid. Upon payment in full of all draw requests, the balance of the Draw Reserve Fund will be released to CalAtlantic, Shea and Tri Pointe in accordance with their respective interests therein or credited against any final draw request.

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

Taxable Subordinate Limited Tax Bonds Series 2014

On December 30, 2014 the District issued \$3,457,029 of Taxable Subordinate Limited Tax Bonds Series 2014 (“2014 Sub Bond”) for the purpose of reimbursing CalAtlantic for advances made to the District under the Funding and Reimbursement Agreement. The 2014 Sub Bond bears interest at 8% per annum and is payable to the extent Subordinate Pledged Revenue is available on December 10 commencing on December 10, 2015, to the extent interest is not paid when due such interest shall compound on each interest payment date. The 2014 Sub Bond matures on December 10, 2054. The 2014 Sub Bonds are payable from excess funds in the Surplus Fund for the 2014 Notes. In the first year that Pledged Revenue equals or exceeds \$900,000 and the Debt Service Coverage Ratio, as defined, exceeds 1.25, 50% of deposits in the Surplus fund in excess of \$600,000 will be used to accomplish prepayments of the 2014 Sub Bonds. During 2016, no interest payments were made and compounded interest of \$297,456 was added to the Bond resulting in a balance of \$4,015,684 at December 31, 2016.

Operations Funding Agreement

On October 1, 2013 the District entered into an Operations Funding Agreement with CalAtlantic, whereby CalAtlantic agreed to advance funds for ongoing operations and maintenance expenses through December 31, 2016, and the District agreed to reimburse CalAtlantic for these advances plus interest at 7% per annum. Payments to reimburse CalAtlantic will be made on June 1 of each year and applied first to accrued unpaid interest and then to principal. The agreement will expire on December 31, 2033 and any obligation of the District to reimburse CalAtlantic will expire on December 31, 2043 when any amounts not reimbursed will be deemed to be forever discharged and satisfied in full.

Capital Funding, Acquisition and Reimbursement Agreement

On November 7, 2013 the District entered into a Capital Funding, Acquisition and Reimbursement Agreement with CalAtlantic, whereby CalAtlantic agreed to advance funds for costs associated with construction of Improvements, including costs of acquiring improvements. The District agreed to reimburse CalAtlantic for these advances or acquisition costs plus interest at 8% per annum. Prior to acquiring any improvements CalAtlantic shall obtain a certification from an independent engineer stating that the costs are reasonable and comparable for similar projects and a certification from the District accountant that the costs are reimbursable. During 2014, the District acquired improvements in the amount of \$1,398,636. Proceeds from the 2014 Sub Bond were used to repay advances as of December 30, 2014 in full. During 2015 and 2016 CalAtlantic advanced a total of \$59,869 under this agreement with no additional repayments.

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2016

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

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
Operations Funding	\$ 23,245	\$ 21,297	\$ -	\$ 44,542	\$ -
Operation Interest	836	2,536	-	3,372	-
Capital Funding	29,997	29,872	-	59,869	-
Capital Interest	1,118	3,225	-	4,343	-
Reimbursement for					
MDIA	7,278,070	4,897,278	1,679,435	10,495,913	-
2014A Note	954,454	2,201,198	-	3,155,652	-
Subordinate bonds	3,718,228	297,456	-	4,015,684	-
Total	<u>\$12,005,948</u>	<u>\$ 7,452,862</u>	<u>\$1,679,435</u>	<u>\$17,779,375</u>	<u>\$ -</u>

Due to the uncertainty of the timing of the principal and interest payments on the 2014 Notes and 2014 Sub Bonds, a schedule of the timing of these payments is not available.

Debt Authorization

In 2005 a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness of \$68,400,000 for acquisition, construction, installment, and equipping of capital improvements. The District Service Plan includes a debt authorization limit of \$57,000,000. As of December 31, 2016, the amount of debt authorized by the District's electorate but unissued was \$56,500,000 allowed under the Service Plan.

Note 5: Related Party

A majority of Directors are employees, owners or are otherwise associated with CalAtlantic and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

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.

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2016

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

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

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

Note 7: Economic Dependency

The District has not yet established a property tax base sufficient to pay the District's operating costs. Until a sufficient property tax base is established, the District will be dependent upon funding by the Developer.

Note 8: 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.

WHISPERING PINES METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2016

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;
- 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 interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the statement of activities;
- 3) governmental funds report developer advances and/or note and bond proceeds as revenue; and,
- 4) governmental funds report the repayment of amounts due under the funding agreements as an expenditure; however, this is reported as a reduction in long-term liabilities on the government-wide financial statements.

SUPPLEMENTAL INFORMATION

Whispering Pines Metropolitan District No. 1

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			
System development fees	\$ 150,000	\$ 340,000	\$ 190,000
Property taxes	39,707	39,707	-
Specific ownership taxes	3,177	3,105	(72)
Property taxes - ARI	794	794	-
Interest income	-	509	509
Total Revenues	<u>193,678</u>	<u>384,115</u>	<u>190,437</u>
EXPENDITURES			
Note interest expense	160,000	60,774	99,226
Regional mill levy	794	843	(49)
Non-use fee	-	30,662	(30,662)
Paying agent fees	5,000	13,651	(8,651)
Treasurer's fees	596	614	(18)
Total Expenditures	<u>166,390</u>	<u>106,544</u>	<u>59,846</u>
NET CHANGE IN FUND BALANCE	27,288	277,571	250,283
FUND BALANCE:			
BEGINNING OF YEAR	<u>32,041</u>	<u>115,488</u>	<u>83,447</u>
END OF YEAR	<u>\$ 59,329</u>	<u>\$ 393,059</u>	<u>\$ 333,730</u>

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

Whispering Pines Metropolitan District No. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year Ended December 31, 2016

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Interest income	\$ -	\$ 22	\$ 22
Total Revenues	<u>-</u>	<u>22</u>	<u>22</u>
EXPENDITURES			
Accounting and audit	10,000	11,876	(1,876)
Legal	10,000	17,301	(7,301)
Miscellaneous expenses		5,850	(5,850)
Planning and engineering	60,000	119,400	(59,400)
Streets	-	858,685	(858,685)
Erosion control	-	207,343	(207,343)
Water & sewer	-	938,870	(938,870)
Park and recreation	8,228,316	2,274,497	5,953,819
Construction management - regional improvements	-	258,294	(258,294)
Development supervision	-	53,700	(53,700)
Developer advances - principal	-	1,679,818	(1,679,818)
Developer advances - interest	<u>2,000,000</u>	<u>954,036</u>	<u>1,045,964</u>
Total Expenditures	<u>10,308,316</u>	<u>7,379,670</u>	<u>2,928,646</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(10,308,316)	(7,379,648)	2,928,668
OTHER FINANCING SOURCES (USES)			
Note proceeds	2,000,000	2,201,198	201,198
Developer advances	-	39,025	39,025
Developer advances - regional improvements	<u>8,230,000</u>	<u>4,848,563</u>	<u>(3,381,437)</u>
Total Other Financing Sources (Uses)	<u>10,230,000</u>	<u>7,088,786</u>	<u>(3,141,214)</u>
NET CHANGE IN FUND BALANCE	(78,316)	(290,862)	(212,546)
FUND BALANCE:			
BEGINNING OF YEAR	<u>78,316</u>	<u>454,454</u>	<u>376,138</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 163,592</u>	<u>\$ 163,592</u>

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

Whispering Pines Metropolitan District No. 1

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2016

(Unaudited)

<u>Year Ended</u> <u>December 31,</u>	Prior Year Assessed Valuation for Current Year Property	<u>Mills Levied</u>		<u>Total Property Tax</u>		Percent Collected to Levied
<u>December 31,</u>	<u>Tax Levy</u>	<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	<u>to Levied</u>
2013	\$ 1,610	0.000	0.000	\$ -	\$ -	0.00%
2014	\$ 1,980	10.000	41.000	\$ 101	\$ -	0.00%
2015	\$ 2,990	10.000	51.000	\$ 182	\$ 182	99.79%
2016	\$ 794,137	15.000	51.000	\$ 52,413	\$ 52,414	100.00%
Estimated for year ending December 31, 2017	\$ 2,989,267	15.000	51.000	\$ 197,292		

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.