

**WATER VALLEY METROPOLITAN DISTRICT NO. 1**  
**Weld County, Colorado**

**FINANCIAL STATEMENTS**  
**December 31, 2016**



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*By the Office of the State Auditor at 12:55 pm, Aug 01, 2017*

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**Haynie &  
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## **Independent Auditor's Report**

Members of the Board of Directors  
Water Valley Metropolitan District No. 1

We have audited the accompanying financial statements of the governmental activities and the major funds of Water Valley 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 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the major funds of Water Valley Metropolitan District No. 1, as of December 31, 2016 and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other-Matters**

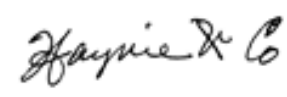
### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This 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. Such 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Water Valley Metropolitan District No. 1's financial statements as a whole. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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.



Littleton, Colorado  
July 11, 2017

**Water Valley Metropolitan District No. 1  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

This section of the annual financial report offers readers of the Water Valley Metropolitan District No. 1's ("District") financial statements its management's discussion and analysis of the District's financial performance during the year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information furnished in the District's financial statements, which immediately follow this section.

**Background Information**

The District, a quasi-municipal corporation, was formed November 23, 1994, and is governed pursuant to provisions of the Colorado Special District Act. The original consolidated service plan between the District and Poudre Tech Metropolitan District was approved on September 12, 1994, the first modification was approved on March 27, 1995, and the second modification was approved on September 27, 1999. The District's service area is located in Windsor, Colorado.

**Financial Highlights**

- The liabilities and deferred inflows of resources of the District exceeded its assets at the close of 2016 by \$5.0 million (net deficit). This deficit/negative unrestricted net position is mainly due to the District being responsible for the payment of debts obtained for the construction of public improvements dedicated or to be dedicated to other entities and public improvements owned or to be owned by Poudre Tech Metropolitan District (Operating District).
- During 2016, general revenues totaled \$1.8 million and accounted for 100% of all revenues; the District had no program specific revenues in the form of charges for services, operating grants and contributions, and capital contributions.
- Property taxes represent the majority of revenue sources for the District and increased by \$803 thousand, approximately 92.7% increase over the prior year. The increase in the assessed valuation of properties in the District from \$22,201,960 (2015 tax collection) to \$42,796,050 (2016 tax collection) contributed to this significant increase in property taxes. The increase in assessed valuation was attributable to oil and gas.
- The District had \$1.4 million in expenditures related to governmental activities, of which \$896 thousand represents transfers to Poudre Tech Metropolitan District pursuant to a Capital Pledge Agreement and an Amended/Restated Facilities Construction and Service Agreement (see Note 7). None of the District's expenditures were offset by program specific charges for services and operating grants and contributions.
- The District has no capital assets. Pursuant to the Amended/Restated Facilities Construction and Service Agreement, all public improvements constructed within the District will be owned and operated by Poudre Tech Metropolitan District.

**Water Valley Metropolitan District No. 1  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Overview of the Financial Statements**

This annual financial report consists of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements. The governmental funds statements reflect how basic services were financed in the short-term as well as what remains for future spending.

The financial statements include notes that explain some of the information in the statements and required and other supplementary information which provide more detailed data. See below for a summary of the major features of the Government-wide and Fund Financial Statements.

**Major Features of the Government-wide and Fund Financial Statements**

	Government-wide Financial Statements	Fund Financial Statements Governmental Funds
Scope	Entire District	The activities of the District that are proprietary
Required Financial Statements	Statements of Net Position  Statement of Activities	Balance Sheet  Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Generally assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

**Water Valley Metropolitan District No. 1  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

***Government-wide Statements***

The government-wide statements are designed to provide readers a broad overview of the Water Valley Metropolitan District No. 1 finances, in a manner similar to a private-sector business. The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The statements provide both short-term and long-term information about the District's overall financial status.

The statement of net position presents information on all of the District's assets and liabilities, as well as deferred outflows of resources and deferred inflows of resources. The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Valley Metropolitan District No. 1 is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). Included in governmental activities are most of the District's basic services. The basic government-wide financial statements can be found on pages 1-2 of this report.

***Fund Financial Statements***

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has only one fund category type, governmental fund types.

- *Governmental funds*: All of the District's basic services are included in governmental funds, which generally focus on (1) inflows and outflows of cash and other financial assets and (2) balances remaining at year-end which are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine financial resources that may be available in the near term to finance the District's programs. Because this information does not encompass the long-term focus of the government-wide statements, a reconciling schedule is included on the governmental funds statements explaining the relationship (or difference) between them.

Water Valley Metropolitan District No. 1 maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances, found on pages 3-5 of this report. Budgetary financial statement for the General Fund can be found on page 6 of this report.

**Water Valley Metropolitan District No. 1  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7-17 of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required and other supplementary information. This includes the budgetary financial schedule for the Debt Service Fund (page 19), Schedule of Debt Service Requirements to Maturity (page 20), and a Summary of Assessed Valuation, Mill Levy and Property Taxes Collected (page 21).

**Financial Analysis of the District as a Whole**

**Net Position and Changes in Net Position**

Table 1 provides a summary of the District's net position at December 31, 2016 and 2015.

**Table 1  
Condensed Statement of Net Position**

	<u>12/31/2016</u>	<u>12/31/2015</u>
<b>Assets</b>		
Current assets	\$ 4,304,016	\$ 3,561,849
<b>Total assets</b>	<u>4,304,016</u>	<u>3,561,849</u>
<b>Liabilities</b>		
Current liabilities	108,477	589,588
Long-term liabilities	7,329,066	6,690,000
<b>Total liabilities</b>	<u>7,437,543</u>	<u>7,279,588</u>
<b>Deferred Inflows of Resources</b>	<u>1,864,625</u>	<u>1,669,045</u>
<b>Net position</b>		
Restricted	303,493	-
Unrestricted	(5,301,645)	(5,386,784)
<b>Total net position</b>	<u>\$ (4,998,152)</u>	<u>\$ (5,386,784)</u>

**Water Valley Metropolitan District No. 1  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Table 2  
Changes in Net Position from Operating Results**

	<u>12/31/2016</u>	<u>12/31/2015</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ -	\$ -
Operating grants and contributions	-	-
Capital grants and contributions	-	-
General revenues		
Taxes	1,769,827	923,420
Interest income	4,066	1,572
<b>Total revenues</b>	<u>1,773,893</u>	<u>924,992</u>
<b>Expenses</b>		
General government	8,545	4,417
Transfer to Poudre Tech Metro District - operations and capital	534,315	1,156,342
Transfer to Poudre Tech Metro District - Series 2010 Bonds	361,946	365,299
Interest and related costs on long-term debt	480,455	245,025
<b>Total expenses</b>	<u>1,385,261</u>	<u>1,771,083</u>
<b>Change in Net Position</b>	<u>\$ 388,632</u>	<u>\$ (846,091)</u>

Table 2 provides a summary of the changes in net position.

Property and specific ownership taxes account for most of the District's revenues. The District's expenditures predominantly relate to its obligation to Poudre Tech Metropolitan District pursuant to a Capital Pledge Agreement (to pay debt service of 2010 Bonds issued by Poudre Tech Metropolitan District) and an Amended/Restated Facilities Construction and Service Agreement (to construct public improvements benefitting the District).

***Governmental Activities***

The change in net position for governmental activities was \$388,632 in 2016.

The statement of activities shows the cost of program services and the related charges for services and grant offsetting those costs. Table 3 reflects each program's total cost and net cost of services. That is, it identifies the cost of these services supported by unrestricted property taxes.

**Water Valley Metropolitan District No. 1  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Table 3  
Net Cost of Governmental Activities**

	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
General Government	\$ 8,545	\$ (8,545)
Intergovernmental	896,261	(896,261)
Interest and related costs on long-term debt	480,455	(480,455)
<b>Total</b>	<b>\$ 1,385,261</b>	<b>\$ (1,385,261)</b>

**Financial Analysis of District Funds**

***General Fund***

The General Fund provides for general operating costs of the District. The primary funding source for the General Fund is property taxes.

As of December 31, 2016, the District has not provided for an emergency reserve fund equal to at least 3% of the fiscal year spending, as defined under TABOR, because all revenues in the General Fund are intended to be and are being transferred to Poudre Tech Metropolitan District, Operating District, which provides for the required reserve amount. However, the District has committed to maintain a reasonable level of unrestricted fund balance in the General Fund to mitigate temporary revenue shortfalls or unplanned one-time expenditures that may occur in the future.

***Budgetary Highlights***

The District's budget is prepared according to Colorado law and is based on accounting for certain transaction on a basis of cash receipts and disbursements.

**Debt Administration**

***Long-Term Debt***

On July 8, 2016, the District issued \$7,100,000 in General Obligation Refunding Bonds, Series 2016 (Bonds) to prepay the Loan at First Western Trust Bank. The Bonds are general obligations of the District secured and payable from Pledged Revenue which include Property Tax Revenue, net of costs of collection, and any other legally available amounts.

**Water Valley Metropolitan District No. 1  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Table 4  
Outstanding Long-Term Debt**

	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>% of Change 2015-2016</u>
Government Activities:			
2014 General Obligation Refunding & Improvement Loan	\$ -	\$7,210,000	
General Obligation Refunding Bonds, Series 2016	7,100,000	-	
Total	<u>\$7,100,000</u>	<u>\$7,210,000</u>	-1.53%

**Economic Factors and Next Year's Budget**

- The District is a mature district with all its residential lots having been developed and built. Within the District, there are 591 single-family detached dwelling units, 125 single-family attached dwelling units, and 128 multi-family units (condominiums) built. As to commercial development in the District, of the 28 acres zoned for commercial/office/retail uses, a total of approximately 15 acres have been developed into a total of approximately 17,469 square feet of office space and approximately 56,583 square feet of commercial/ retail space.
- The District is in the middle of Northern Colorado, an area that is continuing to enjoy a robust and growing regional economy and an associated material increase in property values. As the regional economy continues to grow, so too should the values of the residential and commercial real estate within the District.
- The financial impact of ad valorem taxes on oil and gas produced from wells within the District is very significant. The total Certified Assessed Value of oil and gas production within the District for 2016 (tax collection in 2017) has increased 28.36% from 2015 (tax collection in 2016), going from \$17,450,420 to \$22,399,730. At the District's current mill levy of 39 mills, this increase in assessed value from oil and gas will result in approximately \$193,023 of additional revenue to the District in 2017. Total revenue from oil and gas taxes in 2016 and anticipated taxes for 2017 are \$680,566 and \$873,589 respectively. After 2017, revenues from oil and gas taxes are anticipated to decline over time as production from the existing wells declines. The actual financial impact to the District will be predicated on the price of oil and gas over time and the actual amount of oil and gas produced from each well; however, taxes on oil and gas production will continue to have a positive financial impact on the District for the foreseeable future.
- Based on the preceding, the District believes it is very well situated financially both in the short and long terms and that no additional increase in mill levies will be required to meet the District's debt service or operating obligations.

**Water Valley Metropolitan District No. 1  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Contacting the District's Financial Management Team**

This financial report is designed to provide the District's citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Water Valley Metropolitan District No. 1  
1625 Pelican Lakes Point, Suite 201  
Windsor, Colorado 80550

## **BASIC FINANCIAL STATEMENTS**

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

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 100,000
Cash and investments - Restricted	2,331,565
Receivable - County Treasurer	7,826
Property taxes receivable	1,864,625
Total assets	4,304,016
 <b>LIABILITIES</b>	
Accounts payable	8,885
Accrued interest payable - Bonds	24,592
Noncurrent liabilities	
Due within one year	75,000
Due in more than one year	7,329,066
Total liabilities	7,437,543
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	1,864,625
Total deferred inflows of resources	1,864,625
 <b>NET POSITION</b>	
Restricted for	
Debt Service	301,946
Capital projects (PTMD)	1,547
Unrestricted	(5,301,645)
Total net position	\$ (4,998,152)

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

**WATER VALLEY 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 (Expense)</u> <u>Revenue 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	\$ 8,545	\$ -	\$ -	\$ -	\$ (8,545)
Intergovernmental - Transfers to PTMD - for operations and capital costs	534,315	-	-	-	(534,315)
Intergovernmental - Transfers to PTMD - for debt service	361,946	-	-	-	(361,946)
Interest and related costs on long-term debt	480,455	-	-	-	(480,455)
	<u>\$ 1,385,261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,385,261)</u>
General revenues:					
Property taxes					1,668,329
Specific ownership taxes					101,498
Interest income					4,066
Total general revenues					<u>1,773,893</u>
Change in net position					388,632
Net position - Beginning					(5,386,784)
Net position - Ending					<u>\$ (4,998,152)</u>

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

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

	<b>General</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
First Western Trust Bank - Tax Receipts Account	\$ 100,000	\$ 320,905	\$ 420,905
First Western Trust Bank - Loan Fund	-	1,759,328	1,759,328
UMB Debt Service Reserve Fund - Series 2016	-	251,327	251,327
UMB Bond Fund - Series 2016	-	5	5
Receivable - County Treasurer	2,669	5,157	7,826
Property taxes receivable	1,454,886	409,739	1,864,625
<b>TOTAL ASSETS</b>	<b>\$ 1,557,555</b>	<b>\$ 2,746,461</b>	<b>\$ 4,304,016</b>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 8,885	\$ 8,885
Total liabilities	-	8,885	8,885
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Property tax revenue	1,454,886	409,739	1,864,625
Total deferred inflows of resources	1,454,886	409,739	1,864,625
 <b>FUND BALANCES</b>			
Restricted			
Debt service	-	577,394	577,394
Capital projects (PTMD)	-	1,750,443	1,750,443
Committed			
Operations (PTMD)	102,669	-	102,669
Total fund balances	102,669	2,327,837	2,430,506
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,557,555</b>	<b>\$ 2,746,461</b>	

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

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

Bonds payable	(7,100,000)
Bond premium	(304,066)
Accrued interest payable - Bonds	(24,592)
Net position of governmental activities	<b>\$ (4,998,152)</b>

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

**WATER VALLEY 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>Total Governmental Funds</u>
<b>REVENUES</b>			
Property taxes	\$ 568,943	\$ 1,099,386	\$ 1,668,329
Specific ownership taxes	34,613	66,885	101,498
Interest income	799	3,267	4,066
Total revenues	<u>604,355</u>	<u>1,169,538</u>	<u>1,773,893</u>
<b>EXPENDITURES</b>			
County Treasurer's fees	8,545	16,512	25,057
2016 G.O. Bonds - interest	-	117,220	117,220
2014 G.O. Loan - interest	-	176,948	176,948
2014 G.O. Loan - principal	-	7,210,000	7,210,000
Cost of issuance	-	176,847	176,847
Miscellaneous	60	61	121
Transfers to PTMD - operations and capital costs	497,814	36,501	534,315
Transfers to PTMD - Series 2010 Bonds	-	361,946	361,946
Total expenditures	<u>506,419</u>	<u>8,096,035</u>	<u>8,602,454</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>97,936</u>	<u>(6,926,497)</u>	<u>(6,828,561)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond issuance	-	7,100,000	7,100,000
Bond premium	-	311,577	311,577
Total other financing sources (uses)	<u>-</u>	<u>7,411,577</u>	<u>7,411,577</u>
<b>NET CHANGE IN FUND BALANCES</b>	97,936	485,080	583,016
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>4,733</u>	<u>1,842,757</u>	<u>1,847,490</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 102,669</u>	<u>\$ 2,327,837</u>	<u>\$ 2,430,506</u>

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

**WATER VALLEY METROPOLITAN DISTRICT NO. 1  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND  
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 balance - Total governmental fund	\$	583,016
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The issuance of long-term debt (e.g., bonds, leases) 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. The net effect of these differences in the treatment of long-term debt and related items is as follows:

2016 G.O. Bonds - proceeds		(7,100,000)
2016 G.O. Bonds - premium		(311,577)
2014 G.O. Loan - principal payment		7,210,000

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 Loan - Change in liability		24,274
Accrued interest on Bonds - Change in liability		(24,592)
Amortization of bond premium		7,511

Change in net position of governmental activities	\$	<u>388,632</u>
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

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

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 569,187	\$ 568,943	\$ (244)
Specific ownership taxes	45,535	34,613	(10,922)
Interest income	500	799	299
Total revenues	<u>615,222</u>	<u>604,355</u>	<u>(10,867)</u>
<b>EXPENDITURES</b>			
County Treasurer's fees	8,538	8,545	(7)
Miscellaneous	-	60	(60)
Transfers to PTMD - funding for operations	<u>604,962</u>	<u>497,814</u>	<u>107,148</u>
Total expenditures	<u>613,500</u>	<u>506,419</u>	<u>107,081</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,722	97,936	96,214
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>2,117</u>	<u>4,733</u>	<u>2,616</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 3,839</u>	<u>\$ 102,669</u>	<u>\$ 98,830</u>

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

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

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Water Valley Metropolitan District No. 1 (District), a quasi-municipal corporation and a political subdivision of the State of Colorado, was organized by order and decree of the District Court for the Town of Windsor, Weld County, Colorado, in 1994, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes).

The District was organized to provide water and wastewater services, street construction, installation of safety control devices and construction and maintenance of parks and recreation facilities. The District is a Financing District organized in conjunction with two other related Districts – Poudre Tech Metropolitan District and Water Valley Metropolitan District No. 2. Poudre Tech Metropolitan District serves as the Operating District which is responsible for managing the construction and operation of facilities and improvements needed for Water Valley Metropolitan District Nos. 1 and 2 (Financing Districts) which are responsible for providing the tax base needed to support the financing of capital improvements.

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

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

**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.

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

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

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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. All other revenue items are considered to be measurable and available only when cash is received by the District. 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, interest, and other related costs of debts issued by the District and Poudre Tech Metropolitan District (Operating District). Currently, it also accounts for draws from the 2014 General Obligation Refunding and Improvement Loan with First Western Trust Bank, which funds are transferred to the Operating District to pay for costs of public improvements benefitting the District.

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

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

**Budgets**

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures 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.

**Pooled Cash and Investments**

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

Investments are carried at fair value.

**Property Taxes**

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

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

**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.

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

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of financial 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 District has only one item that qualifies for reporting in this category. Accordingly, the item, deferred property tax revenue, is deferred and recognized as an inflow of resources in the period that the amount becomes 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.

In the government-wide financial statements, fund equity is classified as net position. Net position may be classified into three components: net investment in capital assets, restricted and unrestricted.

***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.

**WATER VALLEY 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 balances are 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	\$ 100,000
Cash and investments – Restricted	<u>2,331,565</u>
Total cash and investments	<u><u>\$ 2,431,565</u></u>

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

Deposits with financial institutions	\$ 2,180,233
Investments	<u>251,332</u>
Total cash and investments	<u><u>\$ 2,431,565</u></u>

**Deposits with Financial Institutions**

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

At December 31, 2016, the District’s cash deposits had a bank and carrying balance of \$2,180,233.

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

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

**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.

The District has invested in COLOTRUST, an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs.

**WATER VALLEY 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:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 251,332</u>

**COLOTRUST**

The monies in the 2016 Bond Debt Service Reserve Fund held by UMB Bank (Trustee) were invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's.

**NOTE 4 – 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>Payments/ Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
2014 General Obligation Refunding and Improvement Loan	\$ 7,210,000	\$ -	\$ 7,210,000	\$ -	\$ -
General Obligation Refunding Bonds, Series 2016	-	7,100,000	7,210,000	7,100,000	75,000
	<u>7,210,000</u>	<u>7,100,000</u>	<u>7,210,000</u>	<u>7,100,000</u>	<u>\$ 75,000</u>
Series 2016 Bond Premium	-	311,577	7,511	304,066	
	<u>\$ 7,210,000</u>	<u>\$ 7,411,577</u>	<u>\$ 7,217,511</u>	<u>\$ 7,404,066</u>	

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

**NOTE 4 – LONG-TERM OBLIGATIONS (CONTINUED)**

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

On January 31, 2014, the District entered into a Loan Agreement with First Western Trust Bank to obtain a loan in the aggregate original principal amount of up to \$7,210,000 (Loan). The maturity date of the Loan is January 31, 2021, with an interest rate of 4.04%, paid semi-annually on June 1 and December 1. The proceeds of the initial draw from the Loan were used to (i) advance refund the District’s Series 2004 and Series 2007 Bonds in order to reduce annual interest costs and effect other economies, (ii) to finance additional costs of public improvements, and (iii) pay for the costs of issuing the Loan.

On July 8, 2016, the District issued \$7,100,000 in General Obligation Refunding Bonds, Series 2016 (2016 Bonds) to prepay the Loan described above. The 2016 Bonds are general obligations of the District secured and payable from Pledged Revenue which include Property Tax Revenue, net of costs of collection, and any other legally available amounts. The 2016 Bonds are due December 1, 2040, with an interest rate of 2.00%-5.25%, paid semiannually on June 1 and December 1. The 2016 Bonds maturing on and after December 1, 2035, are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$5,000, in any order of maturity, and in whole or partial maturities (and if in part in such order of maturities as the District is to determine and by lot within maturities), on December 1, 2026, and on any date thereafter, upon payment of par, and accrued interest thereon, without redemption premium. The 2016 Bonds maturing on December 1, 2033, are subject to mandatory sinking fund redemption, prior to maturity, in part, by lot in such manner as the Trustee is to determine, on December 1 of each year at a redemption price equal to the principal amount thereof (with no redemption premium), plus accrued interest.

The 2016 Bonds will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 75,000	\$ 295,100	\$ 370,100
2018	205,000	293,600	498,600
2019	210,000	288,987	498,987
2020	215,000	283,737	498,737
2021	220,000	278,094	498,094
2022-2026	1,210,000	1,287,150	2,497,150
2027-2031	1,440,000	1,052,460	2,492,460
2032-2036	1,765,000	729,365	2,494,365
2037-2040	1,760,000	237,039	1,997,039
	<u>\$ 7,100,000</u>	<u>\$ 4,745,532</u>	<u>\$ 11,845,532</u>

Further, the District entered into a Capital Pledge Agreement in October 2010 as amended in January 2014, pursuant to which the District is obligated to impose an ad valorem property tax levy without limitation as to rate to pay a portion of principal and accrued interest on Poudre Tech Metropolitan District’s Property Tax Supported Revenue Refunding and Improvement Bonds, Series 2010 A, B and C in the aggregate principal amount of \$25,675,000 issued pursuant to a 2010 Indenture of Trust with UMB Bank. During 2016, the District transferred \$361,946 to Poudre Tech Metropolitan District in compliance of its obligation under the Capital Pledge Agreement.

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

**NOTE 5 - AUTHORIZED DEBT**

On November 8, 1994, the District's voters authorized the issuance of indebtedness in an amount not to exceed \$21,565,000. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized on November 8, 1994	Authorization Used for 2004 Bonds	Authorization Used for 2007 Bonds	Authorization Used for Pledge Agreement with Operating District 2010 Bonds	Authorization Used for Portion of 2014 Refunding	Authorization Used for 2014 Loan	Authorized But Unissued
Water	\$ 3,175,000	\$ (507,000)	\$ (367,500)	\$(1,778,334)	\$ (522,166)	\$ -	\$ -
Sanitation	3,415,000	(1,267,500)	(918,750)	-	(1,228,750)	-	-
Streets	6,590,000	(507,000)	(367,500)	-	(655,300)	-	5,060,200
Parks and Recreation	6,615,000	(253,500)	(892,500)	-	(1,257,675)	(2,934,325)	1,277,000
Traffic/Safety Protectio	450,000	-	(78,750)	-	-	-	371,250
Fire Protection	795,000	-	-	-	-	-	795,000
TV Relay/Translation	525,000	-	-	-	-	-	525,000
	<u>\$ 21,565,000</u>	<u>\$(2,535,000)</u>	<u>\$(2,625,000)</u>	<u>\$(1,778,334)</u>	<u>\$ (3,663,891)</u>	<u>\$(2,934,325)</u>	<u>\$ 8,028,450</u>

Pursuant to the Service Plan, the maximum general obligation bonded indebtedness for Financing Districts is not expected to exceed \$21,000,000 (in 1995 dollars) exclusive of costs of issuance, organization costs, inflation, contingencies and other similar costs.

The 2016 Bonds constitutes a financing of District indebtedness at a lower interest rate and the principal amount of the Bonds is not in excess of the original principal amount of the Loan; therefore, the issuance of the 2016 Bonds did not require electoral authorization.

In the future, the District may issue a portion or all of the remaining authorized but unissued debt for purposes of providing public improvements to support development as it occurs within the District's service area; however, as of the date of this audit, the amount and timing of any future debt issuances are not determinable.

**NOTE 6 – NET POSITION**

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

Restricted net position consists of assets that are restricted for use as imposed by external parties such as creditors, grantors or contributors, or as imposed by laws or regulations of other governments, or as imposed through constitutional provisions or enabling legislation. At December 31, 2016, the District had restricted net position of \$301,946 for debt service and \$1,547 for capital projects.

The District has a deficit unrestricted net position. This negative net position is a result of the District being responsible for the repayment of long-term debt and accrued interest issued to finance public improvements previously constructed and to be constructed by Poudre Tech Metropolitan District, Operating District, for the benefit of the District.

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

**NOTE 7 - AGREEMENTS**

**Amended and Restated Facilities Construction and Service Agreement (“Master IGA”)**

As contemplated by the Service Plan, the District entered into an Amended and Restated Facilities Construction and Service Agreement (“Master IGA”), dated February 17, 2014, with Water Valley Metropolitan District No. 2 (“District No. 2”) and Poudre Tech Metropolitan District (“PTMD”) (collectively, the “Districts”), pursuant to which the Districts have agreed that PTMD will own, operate, maintain and construct public improvements benefiting all Districts, and that the District and District No. 2 will pay all costs related to construction, operation and maintenance of such public improvements, through their issuance of general obligation debt and/or the payment to PTMD for debt service of bonds issued by PTMD. In furtherance of the Master IGA, for the purpose of funding costs of public improvements, PTMD entered into a Facilities Acquisition Agreement (“FAA”) dated July 7, 2005, with Trollco, Inc. (“Developer”), the payment of which constitutes an obligation of the District under the Master IGA. Per the terms of the FAA, any amounts outstanding as of December 31, 2015, were deemed a contribution to PTMD and PTMD has no continuing obligation to the Developer.

**Capital Pledge Agreement**

The District entered into a Capital Pledge Agreement in October 2010 as amended in January 2014, pursuant to which the District is obligated to impose an ad valorem property tax levy without limitation as to rate to pay for a portion of principal and accrued interest payable on PTMD’s Property Tax Supported Revenue Refunding and Improvement Bonds, Series 2010 A, B and C in the aggregate principal amount of \$25,675,000 issued pursuant to a 2010 Indenture of Trust with UMB Bank (“2010 Bonds”). The Capital Pledge Agreement, as amended, provides for the allocation between the District and District No. 2 of required debt service on the 2010 Bonds.

**NOTE 8 - RELATED PARTIES**

The Developer of the property which constitutes the District is Trollco Inc., a Colorado corporation (Developer). Certain members of the Board of Directors of the District are officers or employees of or related to the Developer or an entity affiliated with the Developer or the majority owner of the Developer, and may have conflicts of interest in dealing with the District.

**NOTE 9 - 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; or acts of God.

The District was 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.

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

**NOTE 9 - RISK MANAGEMENT (CONTINUED)**

The District pays annual premiums to the Pool for liability 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 10 - 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 which apply to the State of Colorado and all local governments.

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. As of December 31, 2016, the District has not provided for an emergency reserve equal to at least 3% of fiscal year spending, as defined under TABOR, because net tax revenue is transferred to Poudre Tech Metropolitan District, the Operating District, which provides for the required reserve amount. Additionally, the District has committed to maintain a reasonable level of unrestricted fund balance in the General Fund to mitigate temporary revenue shortfalls or unplanned one-time expenditures that may occur in the future.

The District's management has taken steps it believes are necessary to comply 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**

**WATER VALLEY 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	\$ 1,099,858	\$ 1,099,858	\$ 1,099,386	\$ (472)
Specific ownership taxes	87,989	59,320	66,885	7,565
Interest income	1,000	2,500	3,267	767
Total revenues	<u>1,188,847</u>	<u>1,161,678</u>	<u>1,169,538</u>	<u>7,860</u>
<b>EXPENDITURES</b>				
County Treasurer's fees	16,498	16,498	16,512	(14)
2016 G.O. Bonds - interest	-	117,220	117,220	-
2014 G.O. Loan - interest	290,902	176,948	176,948	-
2014 G.O. Loan - principal	520,000	7,210,000	7,210,000	-
Cost of issuance	-	176,847	176,847	-
Miscellaneous	3,115	555	61	494
Transfers to PTMD - funding for capital costs	1,377,739	1,075,000	36,501	1,038,499
Transfers to PTMD - Series 2010 Bonds	361,946	361,932	361,946	(14)
Total expenditures	<u>2,570,200</u>	<u>9,135,000</u>	<u>8,096,035</u>	<u>1,038,965</u>
<b>EXCESS OF REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	<u>(1,381,353)</u>	<u>(7,973,322)</u>	<u>(6,926,497)</u>	<u>1,046,825</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond issuance	-	7,100,000	7,100,000	-
Bond premium	-	311,577	311,577	-
Total other financing sources (uses)	<u>-</u>	<u>7,411,577</u>	<u>7,411,577</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(1,381,353)	(561,745)	485,080	1,046,825
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>1,395,995</u>	<u>1,842,757</u>	<u>1,842,757</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 14,642</u>	<u>\$ 1,281,012</u>	<u>\$ 2,327,837</u>	<u>\$ 1,046,825</u>

**WATER VALLEY METROPOLITAN DISTRICT NO. 1**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**December 31, 2016**

**\$7,100,000 General Obligation Refunding Bonds, Series 2016**  
**Dated July 8, 2016**  
**Principal due December 1**  
**Interest Rate 2.00%-5.25% Payable June 1 and December 1**

<b>Year Ended December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 75,000	\$ 295,100	\$ 370,100
2018	205,000	293,600	498,600
2019	210,000	288,987	498,987
2020	215,000	283,737	498,737
2021	220,000	278,094	498,094
2022	225,000	272,044	497,044
2023	235,000	265,294	500,294
2024	240,000	257,950	497,950
2025	250,000	250,150	500,150
2026	260,000	241,712	501,712
2027	265,000	232,612	497,612
2028	275,000	222,012	497,012
2029	290,000	211,012	501,012
2030	300,000	199,412	499,412
2031	310,000	187,412	497,412
2032	325,000	175,013	500,013
2033	335,000	162,013	497,013
2034	350,000	148,613	498,613
2035	370,000	131,113	501,113
2036	385,000	112,613	497,613
2037	405,000	92,400	497,400
2038	430,000	71,138	501,138
2039	450,000	48,563	498,563
2040	475,000	24,938	499,938
	<u>\$ 7,100,000</u>	<u>\$ 4,745,532</u>	<u>\$ 11,845,532</u>

**WATER VALLEY 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>Mills Levied</u>		<u>Total Property Taxes</u>		<u>Percent Collected to Levied</u>
		<u>General</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2012	\$ 23,459,270	10.000	16.000	\$ 609,941	\$ 619,372	101.55%
2013	\$ 23,145,380	6.000	33.000	\$ 902,670	\$ 902,350	99.96%
2014	\$ 22,683,319	7.000	32.000	\$ 884,649	\$ 884,859	100.02%
2015	\$ 22,201,960	13.250	25.750	\$ 865,876	\$ 865,653	99.97%
2016	\$ 42,796,050	13.300	25.700	\$1,669,045	\$ 1,668,329	99.96%
Estimated for year ending December 31, 2017	\$ 47,810,900	30.430	8.570	\$1,864,625		

**CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION  
AS REQUIRED BY THE GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**

**WATER VALLEY METROPOLITAN DISTRICT NO. 1**  
**CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION**  
**AS REQUIRED BY THE GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**  
**December 31, 2016**

**Table II**  
**History of District's Assessed Valuation and Mill Levies**

Levy/Collection Year	Assessed Valuation	Percent Increase	Mill Levies		
			General Fund	Debt Service Fund	Total Mill Levy
2010/2011	\$ 26,688,250	-	10.000	10.000	20.000
2011/2012	23,459,270	-12.10%	10.000	16.000	26.000
2012/2013	23,145,380	-1.34%	6.000	33.000	39.000
2013/2014	22,683,319	-2.00%	7.000	32.000	39.000
2014/2015	22,201,960	-2.12%	13.250	25.750	39.000
2015/2016	42,796,050	92.76%	13.300	25.700	39.000
2016/2017	47,810,900	11.72%	30.430	8.570	39.000

Sources: Weld County Assessor's Office and the District.

**Table III**  
**2016 Assessed and "Actual" Valuation of Classes of Property in the District**

Class	Assessed Valuation	Percent of Assessed Valuation	"Actual" Valuation	Percent of "Actual" Valuation
Oil & Gas	\$ 22,399,730	46.85%	\$ 26,469,880	46.85%
Residential	20,146,480	42.14%	253,100,275	42.14%
Vacant Land	356,890	0.75%	1,230,709	0.75%
Commercial	4,290,520	8.97%	14,794,917	8.97%
State Assessed	594,680	1.24%	2,050,616	1.24%
Agricultural	22,600	0.05%	77,930	0.05%
Total	<u>\$ 47,810,900</u>	<u>100.00%</u>	<u>\$ 297,724,327</u>	<u>100.00%</u>

Source: Weld County Assessor's Office

**Table IV**  
**History of District's Property Tax Collections**

Levy/Collection Year	Taxes Levied	Property Tax Collections	Tax Collections as Percent of Tax Levied
2010/2011	\$ 533,765	\$ 523,386	98.06%
2011/2012	609,941	609,133	99.87%
2012/2013	902,670	896,487	99.32%
2013/2014	884,649	874,174	98.82%
2014/2015	865,876	850,566	98.23%
2015/2016	1,669,045	1,668,329	99.96%

Source: Through 2014/2015 - from the Official Statement for the General Obligation Refunding Bonds, Series 2016. From 2015/2016 - from the District.

**WATER VALLEY METROPOLITAN DISTRICT NO. 1**  
**CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION**  
**AS REQUIRED BY THE GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**  
**December 31, 2016**

**Table VII**  
**General Fund Statement of Revenues, Expenditures and Changes in Fund Balance**

	2012	2013	2014	2015	2016
Revenues:					
Taxes <sup>1</sup>	\$ 256,102	\$ 148,267	\$ -	\$ -	\$ -
Property Taxes <sup>1</sup>	-	-	158,821	294,100	568,943
Specific Ownership Taxes <sup>1</sup>	-	-	13,228	19,626	34,613
Interest Income	1,700	454	555	466	799
Transfer from Poudre Tech	-	-	1,000	-	-
Other	25	-	-	-	-
Total Revenues	<u>257,827</u>	<u>148,721</u>	<u>173,604</u>	<u>314,192</u>	<u>604,355</u>
Expenditures:					
General Government <sup>2</sup>	3,598	2,076	-	-	-
County Treasurer's Fees <sup>2</sup>	-	-	2,391	4,417	8,545
Miscellaneous	-	-	-	-	60
Transfer to Poudre Tech - Other <sup>3</sup>	255,156	148,947	170,740	264,000	497,814
Total Expenditures	<u>258,754</u>	<u>151,023</u>	<u>173,131</u>	<u>268,417</u>	<u>506,419</u>
Excess of Revenues Over (Under) Expenditures	(927)	(2,302)	473	45,775	97,936
Other Financing Sources (Uses)					
Transfers In (Out)	-	-	(1,000)	(42,190)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(1,000)</u>	<u>(42,190)</u>	<u>-</u>
Net Change in Fund Balance	(927)	(2,302)	(527)	3,585	97,936
Fund Balance - Beginning of Year	4,904	3,977	1,675	1,148	4,733
Fund Balance - End of Year	<u>\$ 3,977</u>	<u>\$ 1,675</u>	<u>\$ 1,148</u>	<u>\$ 4,733</u>	<u>\$ 102,669</u>

<sup>1</sup> In 2014, the District began to separately account for property tax and specific ownership tax revenue.

<sup>2</sup> In 2014, the District began to separately account for general government expenditures.

<sup>3</sup> Transfer to Poudre Tech for operations and capital costs.

Source: District's audited financial statements for the years ended December 31, 2012-2016.

**WATER VALLEY METROPOLITAN DISTRICT NO. 1**  
**CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION**  
**AS REQUIRED BY THE GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**  
**December 31, 2016**

**Table VIII**  
**Debt Service Fund Statement of Revenues, Expenditures and Changes in Fund Balance**

	2012	2013	2014	2015	2016
Revenues:					
Taxes <sup>1</sup>	\$ 409,763	\$ 815,472	\$ -	\$ -	\$ -
Property Taxes <sup>1</sup>	-	-	726,038	571,553	1,099,386
Specific Ownership Taxes <sup>1</sup>	-	-	60,471	38,141	66,885
Interest income	2,719	2,500	2,544	1,106	3,267
Transfer from Poudre Tech	419,524	-	-	-	-
Total Revenues	<u>832,006</u>	<u>817,972</u>	<u>789,053</u>	<u>610,800</u>	<u>1,169,538</u>
Expenditures:					
General Government <sup>2</sup>	6,094	12,943	-	-	-
County Treasurer's Fees <sup>2</sup>	-	-	10,929	8,585	16,512
Transfer to Poudre Tech - Other <sup>3</sup>	-	-	451,224	892,342	36,501
Miscellaneous <sup>2</sup>	-	-	212	92	61
Debt Service					
Trustee Fees	-	-	1,015	-	-
Payment to Escrow Agent (advance refunding)	-	-	3,823,565	-	-
Loan Interest	-	-	149,548	227,820	176,948
Loan Principal	-	-	-	-	7,210,000
Loan Cost of Issuance	-	-	257,472	-	-
Transfer to Poudre Tech - 2010 PTMD Bonds	136,032	415,550	635,133	365,299	361,946
Principal (Series 2004 and 2007 Bonds)	215,000	225,000	-	-	-
Interest (Series 2004 and 2007 Bonds)	174,857	153,940	-	-	-
Bond interest	-	-	-	-	117,220
Bond Cost of Issuance	-	-	-	-	176,847
Total Expenditures	<u>531,983</u>	<u>807,433</u>	<u>5,329,098</u>	<u>1,494,138</u>	<u>8,096,035</u>
Excess of Revenues Over (Under) Expenditures	300,023	10,539	(4,540,045)	(883,338)	(6,926,497)
Other Financing Sources (Uses)					
Loan Proceeds	-	-	4,677,106	2,532,894	-
Bond Issuance	-	-	-	-	7,100,000
Bond Premium	-	-	-	-	311,577
Transfers In	-	-	1,000	42,190	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>4,678,106</u>	<u>2,575,084</u>	<u>7,411,577</u>
Net Change in Fund Balance	300,023	10,539	138,061	1,691,746	485,080
Fund Balance - Beginning of Year	(297,612)	2,411	12,950	151,011	1,842,757
Fund Balance - End of Year	<u>\$ 2,411</u>	<u>\$ 12,950</u>	<u>\$ 151,011</u>	<u>\$ 1,842,757</u>	<u>\$ 2,327,837</u>

<sup>1</sup> In 2014, the District began to separately account for property tax and specific ownership tax revenue.

<sup>2</sup> In 2014, the District began to separately account for general government expenditures.

<sup>3</sup> Transfer to Poudre Tech for capital costs.

Source: District's audited financial statements for the years ended December 31, 2012-2016.

**WATER VALLEY METROPOLITAN DISTRICT NO. 1**  
**CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION**  
**AS REQUIRED BY THE GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**  
**December 31, 2016**

**Table IX**  
**General Fund Budget Summary and Comparison**

	2015 Budget (as adopted)	2016 Budget (as adopted)	2016 Year-To-Date Actual
Beginning Fund Balance	\$ 1,225	\$ 2,117	\$ 4,733
Revenues:			
Property Taxes	294,176	569,187	568,943
Specific Ownership Taxes	23,534	45,535	34,613
Interest income	900	500	799
Total Revenues	<u>318,610</u>	<u>615,222</u>	<u>604,355</u>
Total Funds Available	319,835	617,339	609,088
Expenditures:			
County Treasurer's Fees	4,413	8,538	8,545
Miscellaneous	-	-	60
Transfer to Poudre Tech	79,638	604,962	497,814
Total Expenditures	<u>84,051</u>	<u>613,500</u>	<u>506,419</u>
Transfers Out (Debt Service Fund)	<u>234,584</u>	-	-
Total Expenditures and Transfers Out Requiring Appropriation	318,635	613,500	506,419
Ending fund Balance	<u>\$ 1,200</u>	<u>\$ 3,839</u>	<u>\$ 102,669</u>

Sources: District's adopted 2015 and 2016 budgets and the District's audited financial statements for the year ended December 31, 2016.

**WATER VALLEY METROPOLITAN DISTRICT NO. 1**  
**CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION**  
**AS REQUIRED BY THE GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**  
**December 31, 2016**

**Table X**  
**Debt Service Fund Budget Summary and Comparison**

	2015 Budget (as amended)	2016 Budget (as amended)	2016 Year-To-Date Actual
Beginning Fund Balance	\$ 130,301	\$ 1,842,757	\$ 1,842,757
Revenues:			
Property Taxes	571,700	1,099,858	1,099,386
Specific Ownership Taxes	45,736	59,320	66,885
Interest income	2,000	2,500	3,267
Bond Issuance	-	7,100,000	7,100,000
Bond Premium	-	311,577	311,577
Loan Proceeds	2,532,894	-	-
Total Revenues	<u>3,152,330</u>	<u>8,573,255</u>	<u>8,581,115</u>
Transfers In (General Fund)	<u>234,584</u>	<u>-</u>	<u>-</u>
Total Funds Available	3,517,215	10,416,012	10,423,872
Expenditures:			
County Treasurer's Fees	8,576	16,498	16,512
Loan Interest	230,592	176,948	176,948
Loan Principal	250,000	7,210,000	7,210,000
Miscellaneous	500	555	61
Bond interest	-	117,220	117,220
Bond cost of issuance	-	176,847	176,847
Transfer to Poudre Tech - Other	2,663,195	1,075,000	36,501
Transfer to Poudre Tech - 2010 PTMD Bonds	364,352	361,932	361,946
Total Expenditures	<u>3,517,215</u>	<u>9,135,000</u>	<u>8,096,035</u>
Transfers Out (Debt Service Fund)	-	-	-
Total Expenditures Requiring Appropriation	3,517,215	9,135,000	8,096,035
Ending fund Balance	<u>\$ -</u>	<u>\$ 1,281,012</u>	<u>\$ 2,327,837</u>

Sources: District's adopted 2015 and 2016 budgets and the District's audited financial statements for the year ended December 31, 2016.