

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2016

with

Independent Auditors' Report



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*By the Office of the State Auditor at 8:02 am, Aug 15, 2017*

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Board of Directors  
The Villas at Eastlake Reservoir Metropolitan District  
Adams County, Colorado

Independent Auditors' Report

**Report on the Financial Statements**

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

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

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

**Auditor's Responsibility**

Our responsibility is to express 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of The Villas at Eastlake Reservoir Metropolitan District 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 opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information and continuing disclosure annual financial 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 supplemental information and continuing disclosure annual financial 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.

*Stratagem PC*  
*Certified Public Accountants*

*Lakewood, Colorado*

July 16, 2017

**The Villas at Eastlake Reservoir Metropolitan District**

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>
<b>ASSETS</b>						
Cash and investments	\$ 6,573	\$ -	\$ -	\$ 6,573	\$ -	\$ 6,573
Cash and investments - restricted	917	305,220	2,060,555	2,366,692	-	2,366,692
Receivable - County Treasurer	100	-	-	100	-	100
Property taxes receivable	<u>3,387</u>	<u>16,935</u>	<u>-</u>	<u>20,322</u>	<u>-</u>	<u>20,322</u>
Total Assets	<u>\$ 10,977</u>	<u>\$ 322,155</u>	<u>\$ 2,060,555</u>	<u>\$ 2,393,687</u>	<u>-</u>	<u>2,393,687</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 3,246	\$ -	\$ 1,890	\$ 5,136	-	5,136
Accrued interest on bonds	-	-	-	-	4,196	4,196
Long-term liabilities:						
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,579,425</u>	<u>2,579,425</u>
Total Liabilities	<u>3,246</u>	<u>-</u>	<u>1,890</u>	<u>5,136</u>	<u>2,583,621</u>	<u>2,588,757</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred property taxes	<u>3,387</u>	<u>16,935</u>	<u>-</u>	<u>20,322</u>	<u>-</u>	<u>20,322</u>
Total Deferred Inflows of Resources	<u>3,387</u>	<u>16,935</u>	<u>-</u>	<u>20,322</u>	<u>-</u>	<u>20,322</u>
<b>FUND BALANCES/NET POSITION</b>						
Fund Balances:						
Restricted:						
Emergencies	917	-	-	917	(917)	-
Debt service	-	305,220	-	305,220	(305,220)	-
Capital projects	-	-	2,058,665	2,058,665	(2,058,665)	-
Unassigned	<u>3,427</u>	<u>-</u>	<u>-</u>	<u>3,427</u>	<u>(3,427)</u>	<u>-</u>
Total Fund Balances	<u>4,344</u>	<u>305,220</u>	<u>2,058,665</u>	<u>2,368,229</u>	<u>(2,368,229)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 10,977</u>	<u>\$ 322,155</u>	<u>\$ 2,060,555</u>	<u>\$ 2,393,687</u>		
Net Position:						
Net investment in capital assets					(2,579,425)	(2,579,425)
Restricted for:						
Emergencies					917	917
Debt service					301,024	301,024
Capital projects					2,058,665	2,058,665
Unrestricted					<u>3,427</u>	<u>3,427</u>
Total Net Position					<u>\$ (215,392)</u>	<u>\$ (215,392)</u>

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

**The Villas at Eastlake Reservoir Metropolitan District**

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>
<b>EXPENDITURES</b>						
Accounting	\$ 2,681	\$ -	\$ -	\$ 2,681	\$ -	\$ 2,681
Insurance	2,348	-	-	2,348	-	2,348
Legal	13,459	-	-	13,459	-	13,459
Engineering costs	-	-	1,890	1,890	-	1,890
Miscellaneous expenses	36	-	-	36	-	36
Treasurer's fees	255	-	-	255	-	255
Bond interest expense	-	-	-	-	4,121	4,121
Bond issuance costs	-	-	201,550	201,550	-	201,550
Developer advances - interest	-	-	-	-	908	908
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	18,779	-	203,440	222,219	5,029	227,248
<b>GENERAL REVENUES</b>						
Property taxes	16,993	-	-	16,993	-	16,993
Specific ownership taxes	1,400	-	-	1,400	-	1,400
Interest income	-	60	405	465	-	465
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total General Revenues	18,393	60	405	18,858	-	18,858
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>						
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(386)	60	(203,035)	(203,361)	(5,029)	(208,390)
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond proceeds	-	-	2,500,000	2,500,000	(2,500,000)	-
Premium on bonds	-	-	66,860	66,860	(66,860)	-
Developer advances	4,730	-	-	4,730	(4,730)	-
Transfers in/(out)	-	305,160	(305,160)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	4,730	305,160	2,261,700	2,571,590	(2,571,590)	-
<b>NET CHANGES IN FUND BALANCES</b>						
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	4,344	305,220	2,058,665	2,368,229	(2,368,229)	
<b>CHANGE IN NET POSITION</b>						
					(208,390)	(208,390)
<b>FUND BALANCES/NET POSITION:</b>						
BEGINNING OF YEAR	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-	(7,002)	(7,002)
END OF YEAR	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 4,344	\$ 305,220	\$ 2,058,665	\$ 2,368,229	\$ (2,583,621)	\$ (215,392)

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

## The Villas at Eastlake Reservoir Metropolitan District

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

For the Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 16,993	\$ 16,993	\$ 16,993	\$ -
Specific ownership taxes	<u>1,359</u>	<u>1,359</u>	<u>1,400</u>	<u>41</u>
Total Revenues	<u>18,352</u>	<u>18,352</u>	<u>18,393</u>	<u>41</u>
<b>EXPENDITURES</b>				
Accounting	2,500	5,000	2,681	2,319
Insurance	2,500	2,500	2,348	152
Legal	10,000	15,000	13,459	1,541
Miscellaneous expenses	1,000	1,000	36	964
Treasurer's fees	255	255	255	-
Contingency	1,609	5,757	-	5,757
Emergency reserve	<u>488</u>	<u>488</u>	<u>-</u>	<u>488</u>
Total Expenditures	<u>18,352</u>	<u>30,000</u>	<u>18,779</u>	<u>11,221</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>(11,648)</u>	<u>(386)</u>	<u>11,262</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advances	<u>-</u>	<u>11,648</u>	<u>4,730</u>	<u>(6,918)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>11,648</u>	<u>4,730</u>	<u>(6,918)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	4,344	4,344
<b>FUND BALANCE:</b>				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,344</u>	<u>\$ 4,344</u>

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

# THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

## Notes to Financial Statements December 31, 2016

### Note 1: Summary of Significant Accounting Policies

The accounting policies of The Villas at Eastlake Reservoir Metropolitan District (“the District”), located in Adams 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 on November 4, 2008, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to provide for the planning, design, acquisition, construction, installation, relocation, redevelopment and financing of water, sanitation/storm sewer, street, safety protection, parks and recreation, transportation limited television relay and translation facilities, mosquito control, and limited fire protection services within the boundaries of the District to serve the future taxpayers and inhabitants of the District.

The District is to convey the completed public improvements, other than park and recreation improvements, to the City of Thornton or other appropriate jurisdiction or owners association for ongoing operation and maintenance. With the exception of park and recreation improvements, the District is not authorized to operate and maintain public improvements unless set forth in a separate agreement with the City.

The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

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

# THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

## Notes to Financial Statements December 31, 2016

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.

### 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 of 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.

# THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

## Notes to Financial Statements December 31, 2016

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.

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.

### 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.

During 2016, the District amended its total appropriations in the General Fund from \$18,352 to \$30,000 primarily due to increased legal and accounting costs resulting from the issuance of the Series 2016A Bonds and the Series 2016B Bonds.

# THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

## Notes to Financial Statements December 31, 2016

### Assets, Liabilities, Deferred Inflows/Inflows of Resources 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.

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

#### Estimates

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

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in 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.

# THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

## Notes to Financial Statements December 31, 2016

### 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.

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. As of December 31, 2016, the District has not acquired any assets, and has 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.

### 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.

### Original Issue Premium

The original issue premium from the Series 2016 Bonds is being amortized over the life of the bonds using the effective interest method. Accumulated amortization of original issue premiums amounted to \$75, at December 31, 2016.

# THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

## Notes to Financial Statements December 31, 2016

### 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.

### 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 \$917 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 \$305,220 is restricted for the payment of the debt service costs associated with the Series 2016A Bonds (see Note 3).

The restricted fund balance in the Capital Projects Fund in the amount of \$2,058,665 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, all other funds can report negative amounts.

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements  
December 31, 2016

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

Net Position

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

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

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

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

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

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	\$ 6,573
Cash and investments - Restricted	<u>2,366,692</u>
Total	<u>\$2,373,265</u>

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

Deposits with financial institutions	\$ 7,490
Investments - COLOTRUST	<u>2,365,775</u>
	<u>\$ 2,373,265</u>

# THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

## Notes to Financial Statements December 31, 2016

### Deposits

#### Custodial Credit Risk

The Colorado Public Deposit Protection Act, (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

### Investments

#### Investment Valuation

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of December 31, 2016:

An external investment pool that records its investments at fair value. The investment in COLOTRUST is categorized as a Level 2 Investment.

#### Credit Risk

The District’s investment policy requires that the District follow state statutes for investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

#### Custodial and Concentration of Credit Risk

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

# THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

## Notes to Financial Statements December 31, 2016

### Interest Rate Risk

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

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

### COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s with a weighted average maturity of under 60 days, a Level 2 investment under the fair value hierarchy. COLOTRUST is an investment trust/joint ventures 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 trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2016, the District had \$2,365,775 invested in COLOTRUST.

### Note 3: Long Term Debt

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

#### \$2,145,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2016A and \$355,000 Subordinate General Obligation Limited Tax Bonds, Series 2016B

On December 22, 2016, the District issued \$2,145,000 of General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2016A (“Series 2016A Bonds”), and \$355,000 of Subordinate General Obligation Limited Tax Bonds, Series 2016B (“Series 2016B Bonds”), dated December 22, 2016, for the purpose of funding and reimbursing a portion of the costs of certain public infrastructure, paying the costs of issuance of the Bonds, and, with respect to the Series 2016A Bonds only, funding a portion of interest to accrue on the Series 2016A Bonds. The Series 2016A Bonds bear interest at the rate of 6.5%, payable semiannually on each June 1 and December 1, commencing on June 1, 2017, and maturing on December 1, 2046. The Series 2016B Bonds bear interest at the rate of 8%, payable annually on December 15, commencing on December 15, 2017, to the extent that Pledged Revenue is available, and mature on December 15, 2046.

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements  
December 31, 2016

The Series 2016A Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2024 and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, commencing on December 1, 2021, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The Series 2016B Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, commencing on December 15, 2021, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The Series 2016B Bonds are also subject to mandatory redemption from Subordinate Pledged Revenue, if any, on deposit in the Subordinate Bond Fund.

The Series 2016A Bonds are secured by the Senior Required Mill Levy, the Capital Fees, if any, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, and any other legally available moneys as determined by the District. The Series 2016A Bonds are also secured by the Senior Surplus Fund. The Series 2016B Bonds are secured by the Subordinate Required Mill Levy, the Subordinate Capital Fee Revenue, if any, the portion of the Specific Ownership Tax which is collected as a result of the Subordinate Required Mill Levy, any amount remaining in the Senior Surplus Fund after termination of the fund and any other legally available moneys as determined by the District

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2016A Bonds. Because of the uncertainty of the timing of the principal and interest payment on the Series 2016B Bonds, no schedule of principal and interest payments is presented.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 131,292	\$ 131,292
2018	-	139,425	139,425
2019	-	139,425	139,425
2020	-	139,425	139,425
2021	-	139,425	139,425
2022-2026	95,000	691,275	786,275
2027-2031	245,000	637,650	882,650
2032-2036	380,000	541,125	921,125
2037-2041	580,000	393,900	973,900
2042-2046	845,000	172,900	1,017,900
	<u>\$ 2,145,000</u>	<u>\$ 3,125,842</u>	<u>\$ 5,270,842</u>

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements  
December 31, 2016

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

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
Series 2016A Bonds	\$ -	\$2,145,000	\$ -	\$2,145,000	\$ -
Series 2016B Bonds	-	355,000	-	355,000	-
Developer reimbursement	-	11,732	-	11,732	-
Developer reimbursement - interest	-	908	-	908	-
Total	-	2,512,640	-	2,512,640	-
Original issue premium 2016A	-	66,860	75	66,785	-
	<u>\$ -</u>	<u>\$2,579,500</u>	<u>\$ 75</u>	<u>\$2,579,425</u>	<u>\$ -</u>

Debt Authorization

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$33,000,000. The District has not budgeted to issue any new debt during 2017. Per the District's Service Plan, the District can not issue debt in excess of \$2,500,000. After the issuance of the Series 2016A Bonds and Series 2016B Bonds the District has issued the maximum amount of debt allowed under the Service Plan.

Note 4: Other Agreements

Intergovernmental Agreement with City of Thornton

On April 21, 2009, the District entered into the Intergovernmental Agreement with the City of Thornton which restates provisions of the Service Plan regarding the Limitations on the District's exercise of powers and generally functions as a contractual obligation of the District to abide by the limitations imposed on it by the City in the Service Plan.

Administrative, Operations and Maintenance Advance and Reimbursement Agreement

On October 14, 2015, BC Encore Eastlake, LLC (the "Developer") and the District entered into an Administrative, Operations and Maintenance Advance and Reimbursement Agreement pursuant to which the Developer agreed to advance reasonable funds as requested from time to time by the District to pay the District's operating, maintenance, and general administrative expenses up to a maximum of \$25,000.

# THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

## Notes to Financial Statements December 31, 2016

### Funding, Acquisition and Reimbursement Agreement

On October 14, 2015, the Developer and the District entered into a Funding, Acquisition and Reimbursement Agreement pursuant to which the Developer agreed to advance funds to the District for construction of District Infrastructure and/or construct Public Infrastructure for acquisition by the District. The District agreed to reimburse the Developer for all District eligible costs for which the District receives advances, to acquire any District Infrastructure constructed for the benefit of the District from the Developer that is not being dedicated to other government entities (including any related costs), and to reimburse the Developer for any costs incurred by the Developer for District Infrastructure that is being dedicated to third parties. The District agrees to repay the Developer for such advances and to pay interest at the rate of 8.5% from the date of the advance.

### Note 5: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer 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.

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.

During 2008, a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

# THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

## Notes to Financial Statements December 31, 2016

### Note 7: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“Pool”) which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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

### Note 8: Interfund and Operating Transfers

The transfer of \$305,160 from the Capital Projects Fund to Debt Service Fund was to provide funding for the reserve fund and the bond fund for the Series 2016A Bonds.

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

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) 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 VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements  
December 31, 2016

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) 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;
- 2) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 3) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

## SUPPLEMENTAL INFORMATION

## The Villas at Eastlake Reservoir Metropolitan District

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year Ended December 31, 2016

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>			
Interest income	\$ -	\$ 60	\$ 60
Total Revenues	-	60	60
<b>EXPENDITURES</b>			
Treasurer's fees	-	-	-
Total Expenditures	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	-	60	60
<b>OTHER FINANCING SOURCES</b>			
Transfers in/(out)	-	305,160	305,160
Total Other Financing Sources	-	305,160	305,160
<b>NET CHANGE IN FUND BALANCE</b>	-	305,220	305,220
<b>FUND BALANCE:</b>			
BEGINNING OF YEAR	-	-	-
END OF YEAR	\$ -	\$ 305,220	\$ 305,220

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

## The Villas at Eastlake Reservoir Metropolitan District

### 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>
<b>REVENUES</b>			
Interest income	\$ -	\$ 405	\$ 405
Total Revenues	-	405	405
<b>EXPENDITURES</b>			
Engineering costs	-	1,890	(1,890)
Capital improvements	2,500,000	-	2,500,000
Bond issuance costs	-	201,550	(201,550)
Total Expenditures	2,500,000	203,440	2,296,560
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(2,500,000)</b>	<b>(203,035)</b>	<b>2,296,965</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Developer advances	2,500,000	-	(2,500,000)
Bond proceeds	-	2,500,000	2,500,000
Premium on bonds	-	66,860	66,860
Transfers in/(out)	-	(305,160)	(305,160)
Total Other Financing Sources (Uses)	2,500,000	2,261,700	(238,300)
<b>NET CHANGE IN FUND BALANCE</b>	-	2,058,665	2,058,665
<b>FUND BALANCE:</b>			
BEGINNING OF YEAR	-	-	-
END OF YEAR	\$ -	\$ 2,058,665	\$ 2,058,665

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

**The Villas at Eastlake Reservoir Metropolitan District**

SUMMARY OF ASSESSED VALUATION, MILL LEVY  
AND PROPERTY TAXES COLLECTED

December 31, 2016

(Unaudited)

<u>Year Ended December 31,</u>	<b>Prior Year Assessed Valuation for Current Year Property Tax Levy</b>	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2016	\$ 339,860	50.000	0.000	\$ 16,993	\$ 16,993	100.00%
Estimated for year ending December 31, 2017	\$ 338,700	10.000	50.000	\$ 20,322		

**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.

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION - UNAUDITED

# The Villas at Eastlake Reservoir Metropolitan District

OWNERS OF TAXABLE PROPERTY  
WITHIN THE DISTRICT  
December 31, 2016  
UNAUDITED

<u>Taxpayer Name</u>	<u>Property Classification</u>	<u>2016 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
BC Encore Eastlake LLC	Vacant	\$ 338,700	100.00%
Total		<u>\$ 338,700</u>	<u>100.00%</u>

## NOTE

Assessed Valuations were obtained from the 2016A and 2016B Official Statement

## The Villas at Eastlake Reservoir Metropolitan District

2016 ASSESSED AND ACTUAL VALUATION OF CLASSES  
OF PROPERTY IN THE DISTRICT  
UNAUDITED

<u>Class</u>	<u>Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>	<u>Actual Valuation</u>	<u>Percent of Actual Valuation</u>
Vacant	\$ 338,700	100.00%	\$ 1,167,931	100.00%
Total	<u>\$ 338,700</u>	<u>100.00%</u>	<u>\$ 1,167,931</u>	<u>100.00%</u>